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HOUSING AND URBAN-RURAL RECOVERY ACT OF 1982

HEARINGS

BEFORE THE

SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

PART 3

MARCH 24 AND 25, 1982

Serial No. 97-54

Printed for the use of the
Committee on Banking, Finance and Urban Affairs

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CONTENTS

Hearings held on: Page
March 24, 1982 1485
March 25, 1982 1625

MARCH 24, 1982

WITNESSES

Hon. Richard T. Pratt, Chairman, Federal Home Loan Bank Board 1486
Hon. William A. Isaac, Chairman, Federal Deposit Insurance Corporation 1523
Roger W. Mehle, Jr., Assistant Secretary for Domestic Finance 1585

ADDITIONAL MATERIAL SUBMITTED FOR INCLUSION IN THE RECORD

Isaac, Hon. William A.:
Prepared statement on behalf of the Federal Deposit Insurance Corporation 1526
Mehle, Roger W., Jr.:
Prepared statement 1593
Response to request for additional information from Congressman St Germain 1620
Pratt, Hon. Richard T.:
Letter to Congressman St Germain, dated May 10, 1982, containing responses to questions raised during hearing 1550
Memorandum from the Federal Home Loan Bank Board pertaining to calculating FSLIC assistance 1553
Prepared statement on behalf of the Federal Home Loan Bank Board 1490
Response to questions of the minority staff 1557

MARCH 25, 1982

WITNESSES

Most Reverend James Lyke, auxiliary bishop, Catholic Diocese of Cleveland, Ohio, representing the U.S. Catholic Conference 1626
Dr. M. Wendell Belew, director of mission ministries, the Home Mission Board, the Southern Baptist Convention 1648
Henry J. Goodman, vice president, Jewish Community Federation of Cleveland, representing the Council of Jewish Federations, Inc 1659
Stephen Hoffman, director of social planning and research, Jewish Community Federation of Cleveland 1662
Rev. Stanley F. Knock, Jr., Washington representative and secretary for the board of directors, Inter-Religious Coalition for Housing 1679
Dr. J. Terry Wingate, American Baptist Churches, U.S.A., Housing and Shelter Committee, Valley Forge, Pa 1689
Rev. Carlton E. Franzen, manager of Muhlenberg Gardens, Jersey City, N.J., representing Lutheran Housing Coalition 1696
Gerald W. Hopkins, Southern Presbyterian Church, and chairman, Fairfax County Housing Authority 1704
Rev. Lincoln S. Dring, Jr., on behalf of the Robert Pierre Johnson Housing Development Corp., the United Presbyterian Church, U.S.A., the Community Ministry of Montgomery County Housing Committee, and the Interfaith Conference of Metropolitan Washington 1755

Digitized by Google

Page

Virginia Peters, executive director, Wesley Housing Development Corp. of Northern Virginia 1896
Hon. Wes Watkins, a Representative in Congress from the State of Oklahoma, and chairman, Congressional Rural Caucus, accompanied by Frank G. Tsutras, caucus director, and Jim Johnson, legislative assistant 1932
Hon. Charles W. Shuman, Administrator, Farmers Home Administration, U.S. Department of Agriculture, accompanied by Neal "Sox" Johnson, Deputy Administrator for Program Operations, L. D. Elwell, Assistant Administrator for Housing, and Jim Anderson, Director for the Budget 1949
Hon. Jeffrey S. Bragg, Administrator, Federal Insurance Administration, Federal Emergency Management Agency, accompanied by Sally Clary, Financial Officer, Federal Insurance Administration 2008
Lee M. Thomas, Associate Director, State and Local Programs and Support, Federal Emergency Management Agency 2015
Richard J. Martinez, vice president of operations, National Hispanic Housing Coalition 2031
Robin Shield, housing coordinator, National Congress of American Indians 2050
C. O. Smith, Jr., chairman of the board, Manufactured Housing Institute 2054
Matthew B. Slepin, director for housing development, Cooperative League of the U.S.A 2082

ADDITIONAL MATERIAL SUBMITTED FOR INCLUSION IN THE RECORD

Belew, Dr. M. Wendell, report of the District of Columbia Department of Housing Director Robert L. Moore, "Safety Net—With No Way Out" 1655
Bragg, Hon. Jeffrey S.:
Prepared statement 2010
Response to additional question of Congressman Wylie 2030
Catholic Charities of the Archdiocese of New York, letter dated March 31, 1982, from Rev. Msgr. James J. Murray, executive director, regarding administration cuts in housing programs in fiscal year 1983 2125
Dring, Rev. Lincoln S., Jr.:
"Call to Action," paper of the National Low Income Housing Coalition 1873
"Economic and Operational Impact on the Public Housing Program in Montgomery County, Maryland" 1887
"Federal Tax Reform Urged To Assist Renters, Rental Housing," excerpt from the Congressional Record, April 24, 1980 1890
Photographs to accompany oral presentation 1757–61
Prepared statement on behalf of the Robert Pierre Johnson Housing Development Corp., the United Presbyterian Church, U.S.A., the Community Ministry of Montgomery County Housing Committee, and the Interfaith Conference of Metropolitan Washington 1763
Appendixes to prepared statement:
"Lazarus at the Gate: A Call to Renewed Ministries in Housing" . 1779
"The Re-Making of America" 1865
"The Right to a Decent Home: A Pastoral Response to the Crisis in Housing" 1842
Franzen, Rev. Carlton E., prepared statement on behalf of the Lutheran Housing Coalition 1698
Hoffman, Stephen, prepared statement on behalf of the Jewish Community Federation of Cleveland 1666
Hopi Tribal Housing Authority, Second Mesa, Ariz., letter dated March 19, 1982, from Chairman Harold Joseph, Jr., Board of Commissioners, with attached "Hopi Tribal Housing Assistance Strategy—Fiscal Year 1982" and related material 2111
Hopkins, Gerald W.:
Annual report of the Fairfax County Redevelopment and Housing Authority (July 1, 1980 to June 30, 1981) 1733
"County Faces Apartment Shortage," article, Fairfax Journal, March 22, 1982 1713
Letter, dated April 21, 1982, expressing the endorsement of H.R. 5731 by the Fairfax County Redevelopment and Housing Authority 1754
Memorandum to the Fairfax County Board of Supervisors, dated March 22, 1982, regarding rental housing rate information 1715
1977–82 figures regarding progress under existing Federal programs of the Fairfax County Development and Housing Authority 1714
Prepared statement with attachment 1708

Digitized by Google

Page

Knock, Rev. Stanley F., Jr., pamphlet adopted by the 1980 General Conference of the United Methodist Church entitled "Housing" 1683
Lundine, Hon. Stanley N., brief statement 1932
Lyke, Most Reverend James, prepared statement on behalf of the United States Catholic Conference 1632
Martinez, Richard J., prepared statement on behalf of the National Hispanic Housing Coalition 2035
Peters, Virginia:
  Prepared statement on behalf of the Wesley Housing Development Corp. of Northern Virginia 1899
  "When Housing Demands Concern," pamphlet of the corporation 1912
Shield, Robin, prepared statement of Executive Director Ronald P. Andrade, on behalf of the National Congress of American Indians 2052
Shuman, Hon. Charles W.:
  Letter, dated March 12, 1982, from Agriculture Secretary John R. Block to House Speaker Thomas P. O'Neill, Jr., with enclosed draft bill "To Amend Title V of the Housing Act of 1949" 1957
  Prepared statement on behalf of the Farmers Home Administration 1953
  Response to request for additional information from:
    Chairman Gonzalez 1963
    Congressman Vento 1981, 1984
    Congressman Mitchell 1967, 1970
    Congressman Hubbard 1976
    Congressman Watkins 1986
  Response to written questions submitted by Congressman Lundine 2006
Slepin, Matthew B., prepared statement of President E. Morgan Williams, on behalf of the Cooperative League of the U.S.A 2085
Smith, C. O., Jr.:
  Additional written questions submitted by:
    Congressman Patterson 2098
    Housing subcommittee 2104
  Prepared statement on behalf of the Coordinating Council on Manufactured Housing Finance 2058
Thomas, Lee M.:
  Letter to House Speaker Thomas P. O'Neill, Jr., dated February 23, 1982, from FEMA General Counsel George Jett, with enclosed legislation to extend the national flood insurance program 2026
  Prepared statement on behalf of the Federal Emergency Management Agency 2017
Watkins, Hon. Wes., prepared statement 1935
Wingate, Dr. J. Terry, prepared statement on behalf of the American Baptist Churches, U.S.A., Housing and Shelter Committee 1691

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HOUSING AND URBAN-RURAL RECOVERY ACT OF 1982

WEDNESDAY, MARCH 24, 1982

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:38 a.m., in room 2128, Rayburn House Office Building; Hon. Henry B. Gonzalez (chairman of the subcommittee) presiding.

Present: Representatives Gonzalez, St Germain, Schumer, Hoyer, Stanton, Wylie, Bethune, Carman, McCollum, and Lowery.

Chairman GONZALEZ. The subcommittee will please come to order.

We recognize Hon. William A. Isaac, Chairman of the Federal Deposit Insurance Corporation and Hon. Richard T. Pratt, Chairman of the Federal Home Loan Bank Board, and if the gentlemen will please take their chairs. Mr. Pratt will be coming in.

So that we do not compel the others to wait unnecessarily, if there is no objection, we will proceed and let me say at the outset that this is a continuation of the hearings on two bills. Today's hearing concentrates on the distinguished full committee chairman, Mr. St Germain's, bill. We must remember that in this case we are using the joint approach on the Subcommittee on Housing and Community Development as well as the chairman's own Subcommittee on Financial Institutions Supervision, Regulation and Insurance. What the Chair intends to do is that as soon as we hear from the witnesses I will turn it over to the chairman of the full committee and proceed from there.

Thank you very much. Mr. Pratt, we welcome you aboard. If there is no reason why we should not—that is, unless Mr. Pratt has a time situation—it was our intention to recognize Mr. William Isaac.

Mr. PRATT. Mr. Chairman, I have an 11 a.m. plane.

Chairman GONZALEZ. Well, then, if there is no objection, Mr. Isaac, shall we recognize Mr. Pratt first?

Mr. ISAAC. I have no objection.

Chairman GONZALEZ. All right, there is no objection from the panel. Fine, Mr. Pratt, you may proceed.

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STATEMENT OF HON. RICHARD T. PRATT, CHAIRMAN, FEDERAL HOME LOAN BANK BOARD

Mr. PRATT. Fine, Mr. Chairman. Mr. Chairman and members of the subcommittee, thank you for inviting me to testify concerning H.R. 5568, the Home Mortgage Capital Stability Act.

To save time I will summarize my written testimony, but I request that the entire written statement be included in the record.

Chairman GONZALEZ. Without objection, so ordered.

Mr. PRATT. Before discussing this important initiative, however, and outlining an alternative plan that the Bank Board is developing, I would like to sketch the current and projected state of the savings and loan industry and explain why thrift restructuring should be a high priority for Congress.

It is no secret, of course, that the thrift industry in the United States is in a severe financial crisis. High and volatile interest rates are literally threatening the survival of this industry, which various statutory and regulatory constraints have left ill equipped to withstand the extreme pressures it has been experiencing.

Savings and loans in 1981 experienced a 75-basis point negative return on assets with more than 80 percent of all FSLIC-insured institutions experiencing losses. The industry lost almost $5 billion and saw its net worth eroded by about 15 percent. Savings and loans in 1981 also saw record net deposit outflows of $25.5 billion.

As you know, much of this disturbing savings movement from savings and loans has reflected cross intermediation. For example, despite basic equality of yields, money market certificate balances at savings and loans in 1981 actually declined by 1 percent, while commercial bank money market certificate deposits increased by 21.8 percent.

While it is far too early to evaluate the recent actions Congress took to remedy this problem, we are confident that your passage of the full faith in credit resolution will provide a needed psychological impact on depositor confidence, and we appreciate this action.

Turning to 1982, the outlook is not encouraging. If interest rates in 1982 remain where they are, some 400 associations will exhaust their capital accounts. If these rates continue through 1983 we will see another 500 institutions in this condition. If we posit short-term rates about 200 basis points lower, then some 1,051 associations with assets of $234 billion will reach net worth levels of 2 percent or less in 1982 and 200 of these will exhaust their capital.

Should such rates last through 1983, the number of associations having net worth of 2 percent or less will reach 1,829, having total assets of $450 billion, with 300 of these associations exhausting their capital accounts.

An earlier recovery of the industry would require a 6-month Treasury bill rate through 1983 and beyond of approximately 9.5 percent. The industry would still be in a weakened condition. At yearend 1982, 714 savings and loans with $138 billion in assets would be at or below the 2-percent net worth level. This category would increase to 881 associations, representing $194 billion in assets by the end of 1983. Savings and loans exhausting their capital over the 2-year period would number about 200.

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The problems of the industry are presenting an enormous challenge to the Bank Board which I believe this agency has met well. We are particularly pleased with the FSLIC's new problem case procedures, which have stretched our resources considerably.

To illustrate, through May of 1981, FSLIC resolved problems with assets of $1.5 billion. The estimated present value cost was $344 million or 22 percent of assets. By contrast, during the remainder of 1981 the FSLIC resolved 23 cases having assets of $12.3 billion at an estimated present value cost of $633 million or 5.1 percent of assets—one-fourth of the historical cost asset ratio.

While we are proud of our accomplishments to date, the plain fact is that all we have really done, given the enormous magnitude of the problem, is to buy a quantity of time. What concerns us very greatly is that we put the time FSLIC is buying to appropriate use.

Specifically, we believe that it is critical that Congress launch without delay the asset side and other restructuring that the savings and loan industry needs so desperately. Effective structuring in our view is a primary cause of the economic vulnerability of the thrift industry and effective restructuring along the lines of what is contained in H.R. 4724, the Thrift Institutions Restructuring Act of 1981, is the only lasting cure.

The asymmetrical approach to deregulation represented by deregulating thrifts' liability side without providing them with any additional asset flexibility is inherently unworkable. If the thrifts must pay market rates to compete for deposits, as mandated by Public Law 96–221, then logic dictates that they be given investment flexibility sufficient to generate the earnings needed to pay those rates.

That small commercial banks which resemble thrifts are able to remain profitable in the current environment is solely traceable to the multiplicity of investment and deposit options open to the banking industry.

Turning now to H.R. 5568, that bill basically would create a $7.5 billion Treasury revolving fund that could be used to provide net worth and loss coverage assistance to institutions in order to bring them to and support them at a net worth level equal to 2 percent of assets.

Although H.R. 5568 would provide cash assistance, we understand that Chairman St Germain is considering modifying the bill to use a paper-for-paper approach to determine assistance to be necessary. We feel this route, which we incorporate in our alternative plan, to be the most practical one given budget deficit concerns.

In terms of how to administer systems, the Bank Board alternative in H.R. 5568 differs significantly. H.R. 5568 would essentially require the Bank Board to keep S. & L.'s that we determine to have a reasonable prospect for long-run viability at a 2-percent net worth level.

The problem is that this approach undermines the incentive for the savings and loan to cut costs and avoid losses. Indeed, the existence of such a safety net actually could stimulate the incurring of losses by individual associations, although the limited size of the revolving fund ultimately would make such behavior self-defeating for the industry as a whole.

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Administering the H.R. 5568 program to prevent this behavior would be an extremely difficult task, requiring us to oversee from an expense standpoint almost every aspect of an institution's operations.

As an alternative, we urge you to consider an approach whereby savings and loans would be classified by net worth and, depending upon where they fall, would receive an infusion of net worth on a paper-for-paper basis. Each savings and loan infusion would be based on the average loss experience for associations within the institution's net worth range. Savings and loans with lower net worth would receive a greater infusion than institutions in better condition.

This overall approach would greatly slow the descent toward zero net worth without generating potentially dangerous clustering at the 2-percent level. Viable savings and loans would have the time and the incentive to take necessary steps to reduce losses and we have seen considerable ability by associations in difficulty to cut costs.

Hopeless cases would still be winnowed out by the marketplace. The use of market discipline would eliminate the need for the extraordinary regulatory controls applied in H.R. 5568.

To prevent assistance from going to clearly terminal cases, however, the Bank Board would prohibit participation or require a merger resolution from participating management when it becomes evident that that net worth will be exhausted within a short period. The Bank Board can undertake such a program at the present time without an immediate increase in our line of credit to the Treasury.

Of course, an increase would enhance our capacity for administering such a plan as well as contribute to its acceptance by the financial community. The Bank Board is presently examining statutory changes needed to facilitate a program of this type and I will transmit these needs to Congress.

A further major problem with H.R. 5568 is the requirement that an institution receiving assistance devote 50 percent of its net new deposits to mortgages at rates 1 percent above the institution's average cost of funds. This would retard the ability of thrifts to regain profitability, thus lengthening the time they would have to rely on Federal aid.

If help for homeowners is necessary, we urge that a subsidy device be used that does not hinder the return to health of the housing sector's primary traditional source of credit. With respect to aiding housing, we note that one very important step of a nonsubsidy nature Congress could take would be passage of H.R. 4787, the Federal Home Loan Mortgage Corporation recapitalization bill.

In fact, failure to pass this bill probably would increase the price tag for any Federal assistance to housing. We are particularly concerned that, without passage of H.R. 4787 on a timely basis, the $24 billion in support the Federal Home Loan Mortgage Corporation is providing the market this year will be jeopardized.

To conclude, Mr. Chairman, the thrift industry is undergoing a severe crisis. If rates improve over a significant period of time we can handle our responsibilities with available resources. If they do not improve, the situation could require additional Federal support.

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We believe Chairman St Germain has provided an invaluable service by opening formal discussions on this issue through introduction of H.R. 5568. We appreciate the leadership shown in that regard.

If Congress believes it would be appropriate to provide this Federal support, we have suggested what we believe is an easily administrable, cost-effective and market-related approach that would buy time for large numbers of potentially viable savings and loans without worsening the deficit.

We must reemphasize, however, our conviction that restructuring legislation should be enacted without delay. It offers the only real route to thrift survival.

Mr. Chairman, this concludes my remarks. I would be pleased to answer your questions.

[The prepared statement of Mr. Pratt, on behalf of the Federal Home Loan Bank Board, follows:]

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STATEMENT OF

RICHARD T. PRATT, CHAIRMAN

OF THE

FEDERAL HOME LOAN BANK BOARD

Mr. Chairman, Members of the Subcommittee, I appreciate this opportunity to appear today on behalf of the Federal Home Loan Bank Board to testify concerning H.R. 5568, the Home Mortgage Capital Stability Act. This important and timely initiative would provide the Bank Board with access to up to $7.5 billion to use in administering a program of net worth and loss-coverage assistance to financially troubled savings and loan associations. Reflecting growing Congressional interest in programs of this kind, the Bank Board is developing its own assistance plan for your consideration, which we believe could deliver substantial support without necessarily having an impact on the federal deficit.

Before providing specific comments on H.R. 5568 and outlining our own plan, however, I would like to provide you with some economic data on the current and projected state of the savings and loan industry. Such information, of course, is critical to your ability to evaluate the need for providing federal financial help. I also would like to describe some of the activities of the Federal Savings and Loan Insurance Corporation, and indicate why we believe thrift industry restructuring should be a high priority for Congress.

1. Condition of the Savings and Loan Industry

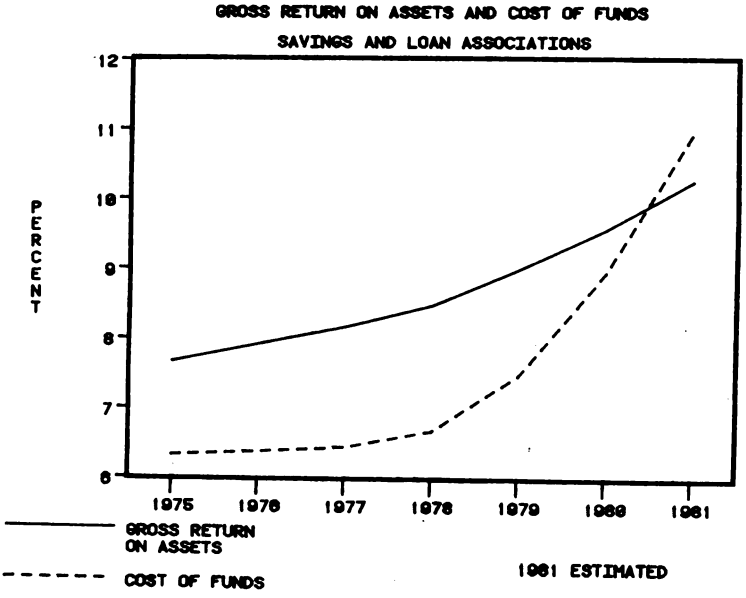
It is no secret, of course, that the thrift industry in the United States is undergoing a severe financial crisis. Thrift institutions are suffering a level of financial distress they have not encountered since the worst days of the Great Depression.

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The high and volatile interest rates that have been created by past tolerance of inflation are literally threatening the survival of this industry, which various statutory and regulatory constraints over the years have left ill-equipped, at best, to withstand the extreme pressures it has been experiencing.

A. Developments in 1981

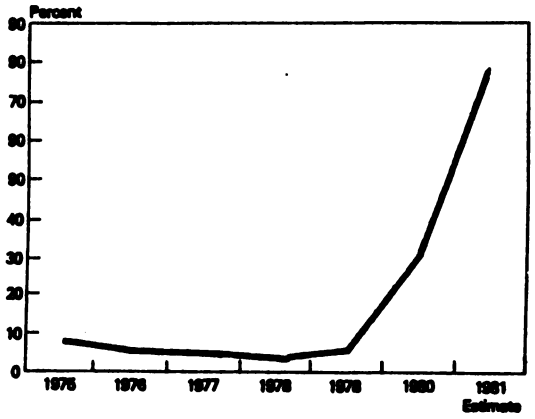
For savings and loan associations, the proximate result of the record level of interest rates that characterized the economy in 1981 was a large and expanding negative spread between those institutions' cost of funds and their gross return on assets.



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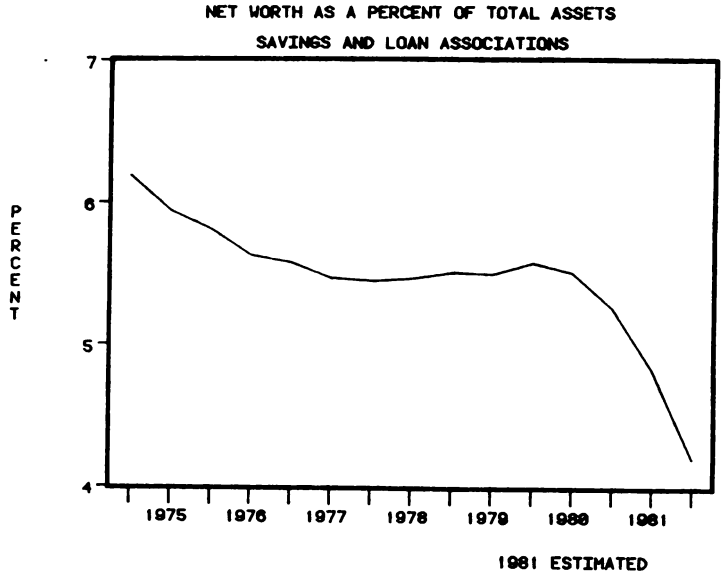
For the last six months of 1981, we estimate that S&Ls experienced an average cost of funds (both deposits and borrowings) of 11.50 percent, compared with an annual rate of 9.11 percent in the first half of the year. Slow replacement of old mortgages, on the other hand, led to an extremely sluggish increase in S&L mortgage portfolio yields, which reached approximately 10 percent for the last half of 1981. This translated into a negative .75 percent return on assets for the S&L industry in 1981, with more than 80 percent of all institutions insured by the FSLIC, in our estimate, experiencing losses.

Percent of Savings and Loan Associations Experiencing Losses



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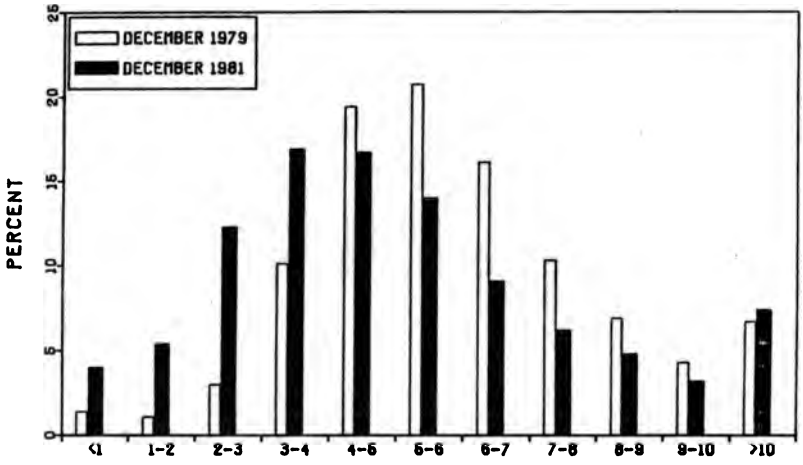
The industry lost, in dollar terms, almost $5 billion -- a record -- and saw its collective net worth eroded by about 15 percent. At year end, industry net worth stood at $27.6 billion, or 4.2 percent of total association assets.



The figure conceals, of course, considerable variation in individual conditions.

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PERCENTAGE DISTRIBUTION OF ASSOCIATIONS BY RATIO OF NET WORTH TO TOTAL ASSETS

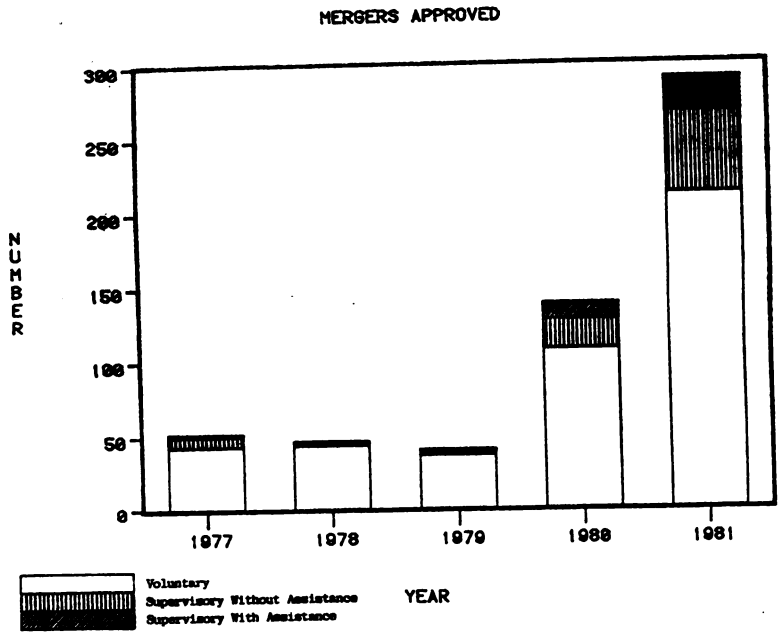


Almost 10 percent of FSLIC-insured institutions, for instance, had net worth less than 2 percent of assets as of the end of 1981. In all, 356 associations with $72 billion in assets fell into this category.

A by-product of this situation was a great increase in consolidation within the industry as associations sought to enchance their competitive prospects. FSLIC-approved mergers totalled 294 in 1981, more than doubling the 1980 figure of 139. About 25 percent of the 1981 transactions were supervisory in nature, and, of these, 23 involved FSLIC financial assistance.

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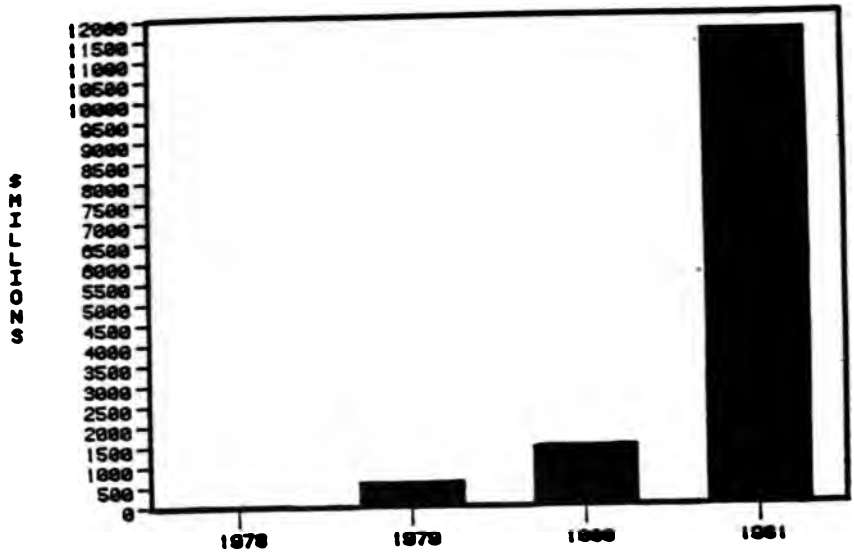
This level of supervisory activity was about 10 times greater than in an earlier typical year.



Those mergers consummated with FSLIC financial help in 1981 involved disappearing institutions with total assets of $11.7 billion, as opposed to $1.4 billion in 1980.

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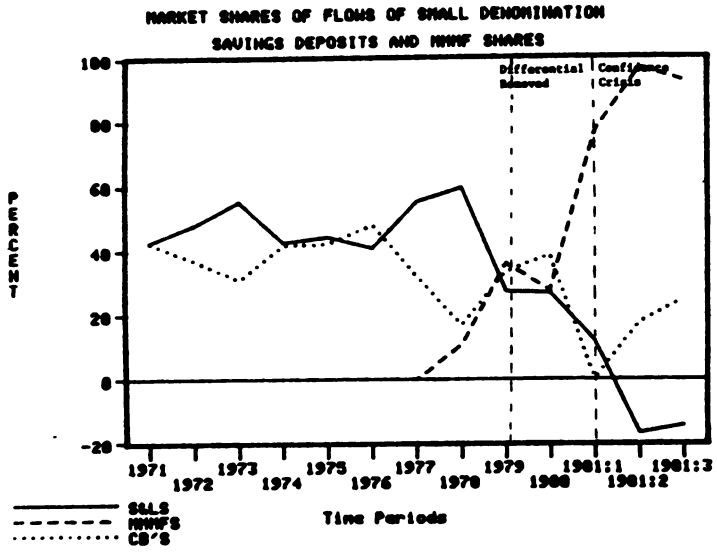
TOTAL ASSETS OF FSLIC ASSISTED CASES



The immediate difficulties connected with the industry's losses, unfortunately, have been joined by the related, and very threatening problem of severely impacted savings flows. Net deposit outflows in 1981 totalled $25.5 billion. This phenomenon has two causes. First, S&Ls have encountered aggressive and successful competition from money market mutual funds. These entities, which are regulated

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to a much lesser degree than their depository institution competitors, grew by almost $110 billion in 1981, although by no means entirely at the expense of S&Ls.



Second, we believe much of the savings movement from S&Ls has reflected what amounts to cross-intermediation stemming from public apprehension over the state of the thrift industry. The evidence for the existence of this situation is that, for account categories where bank/thrift interest rates are the same, customers are shifting very large quantities of funds from S&Ls to commercial banks. For example, money market certificate balances at S&Ls in 1981 actually declined by 1 percent, while commercial bank MMC deposits increased by 21.8 percent. The wide publicity given the troubles

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of the industry clearly has had a sufficiently disquieting effect on great numbers of savers to erode their faith in the implicit assumption that the Congress always would provide the FSLIC with enough funds to safeguard depositors. While it is far too early to gauge the impact of the recent actions Congress took to remedy this problem, we are confident that your passage of the resolutions on full faith and credit will provide a needed psychological impact on depositor confidence. This action on your part should help us a very great deal in fulfilling our responsibilities.

Inevitably, the magnitude of the funds outflows that have occurred have greatly reduced the ability of the savings and loan industry to supply homebuyers and homebuilders with credit. In 1981, FSLIC-insured institutions closed only $52.1 billion in mortgage loans, an amount 27 percent lower than the 1980 figure, and representing the smallest lending volume since 1974, a year in which, it should be noted, the industry financed a much larger number of individual loan transactions than in 1981 because of the lower prices of homes. The past year also saw a continued decline in the percentage of net new mortgage debt acquired by S&Ls, the S&L share dropping to 26 percent for the first three quarters of 1981. This compares with a 30 percent share in 1980, and a 50 percent share during most of the 1970s. Perhaps most telling, in the third quarter of 1981, the most recent quarter for which we have complete information, S&Ls were responsible for only 8 percent of the total growth in home mortgage debt.

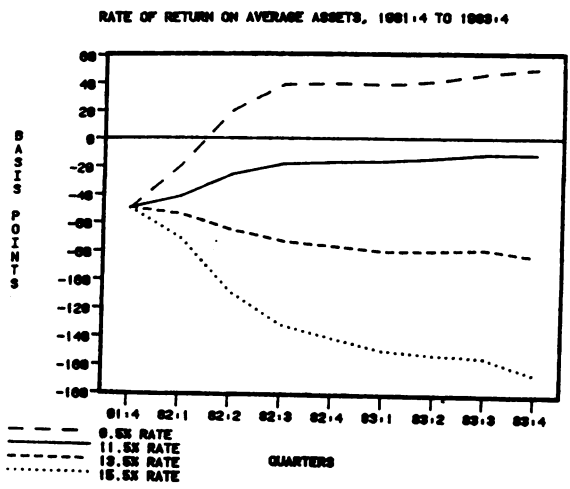
B. Prospects for 1982 and 1983

Turning to 1982, the outlook is not encouraging. Prospects, of course, hinge almost entirely on the behavior of interest rates.

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If interest rates in 1982 remain about where they are--and without factoring in industry restructuring or possible DIDC actions -- some 400 associations will exhaust their capital accounts. Continuation of these rates through 1983 would result in another 500 institutions in this condition. If we posit a more optimistic scenario involving short-term interest rates about 200 basis points lower, we calculate that some 1,051 associations, with assets of $234 billion, will reach net worth levels of 2 percent or less in 1982, and that 200 of these will run out of capital. Should this rate level persist through 1983, the number of associations having net worth of 2 percent or less will reach 1,829, having total assets of $450 billion; 300 of these institutions will exhaust their capital.

To generate an early recovery of the industry would require a 6-month T-bill rate through 1983 and beyond of 9.5 percent. Even an 11.5 percent rate would leave the industry suffering negative earnings.



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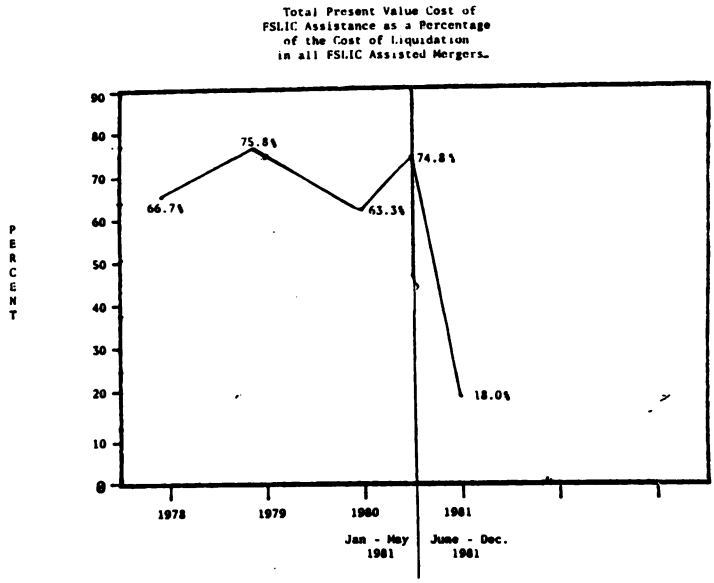
Were we to attain and maintain a 9.5 percent rate, however, the industry still would be in a very weak net worth position. At year end 1982, we could expect 714 S&Ls, with $138 billion in assets, to be at or below the 2 percent net worth level. We project this category would increase to 881 associations, representing $194 billion in assets, by the end of 1983. Institutions exhausting their capital over the 2-year period would number about 200.

2. FSLIC Activities

The problems of the industry are presenting an enormous challenge to the Bank Board, which I believe we have met well, thanks to the creativity, hard work and long hours of our staff. We are particularly pleased with the new procedures the FSLIC has instituted for administering problem cases, which include use of a wider range of merger partners and employment of a broader spectrum of default prevention actions. As a consequence of these new approaches, we have been able to stretch considerably the financial and human resources available to the FSLIC. To illustrate, in the first 5 months of 1981, the FSLIC resolved problems with assets of $1.5 billion. The estimated present value cost was $344 million, or 22 percent of assets, a typical cost-asset ratio for default prevention cases over the last several years. By contrast, during the remainder of 1981, the FSLIC resolved 23 cases, having assets of $12.3 billion, at an estimated present value cost of $633 million or 5.1 percent of assets -- one fourth of the historical cost-asset ratio for resolving problem cases. Likewise, 1981 saw a decrease

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in the total present value cost of FSLIC assistance as a percentage of the cost of liquidation.



This decrease occurred in part because the FSLIC began to structure merger agreements to have assistance payable over time, Accordingly, cash outlays in the last 7 months of 1981 totalled less than 0.5 percent of assets, compared to 61 percent of assets in the first five months of 1981.

Notwithstanding these measures, the FSLIC entered 1982 with somewhat smaller uncommitted reserves than it held at the end of

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1980. Contributing significantly to this shrinkage was our decision to establish contingency reserves to cover losses that we anticipate will be incurred over the life of assisted mergers in force through the end of 1981.

While we are proud of our accomplishments to date, the plain fact is that all we really have done, given the enormous magnitude of the problem, is to buy a quantity of time. In essence, by using mergers as a supervisory tool when a problem cannot be resolved by cost-cutting or securing outside capital, we are seeking to spread as much of the industry's own net worth as possible over the industry's trouble spots as a means of conserving the FSLIC's insurance fund. As many have suggested, there is a natural limit to the usefulness of the merger device. Although I do not believe that limit is near, we have already encountered situations where a suitable merger could not be aranged at a reasonable cost--thus necessitating the provision of FSLIC net worth support until a more cost-effective resolution of the problem, such as a merger, can be achieved. If interest rate developments are favorable, we believe this combination of techniques will enable us to deal successfully with the severe problems generated by this phase of the business cycle.

3. Need for Restructuring

What concerns us very greatly is that we put the time the FSLIC is buying to appropriate use. Specifically, we believe that it is critical that Congress launch without delay the asset-side and other restructuring that the S&L industry needs so

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desperately. Defective structuring, in our view, is a primary cause of the present economic vulnerability of the thrift industry, and effective restructuring, along the lines of what is contained in H.R. 4724, the Thrift Institutions Restructuring Act of 1981, is the only lasting cure. The assymetrical approach to deregulation represented by deregulating thrifts' liability side without providing them with any additional asset flexibility is inherently unworkable. If thrifts are to be required to pay market rates in order to compete for deposits, as is mandated by Public Law 96-221, then logic dictates that they be given investment flexibility sufficient to generate the earnings needed to pay those rates. That small commercial banks, in stark contrast to thrifts, which they often strongly resemble, are able to remain profitable in this volatile interest rate environment is solely traceable to the multiplicity of investment options open to the banking industry, and the access of banks to interest-free demand deposits. Use of even a relatively modest increment of commerical lending authority could provide a significant buffer against adverse changes in the economy.

Objections to our powers proposal generally are couched in terms of its supposedly adverse impact on housing, or rest on the assertion that restructuring is a long-run problem that can wait for a solution. Regarding housing, we do not believe providing commercial lending authority to S&Ls will signal any significant abandonment of home-finance. Housing is the field S&Ls know best, and it is highly unlikely they would forsake

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en masse their area of greatest expertise for the untried pleasures of commercial lending. To the contrary, we believe they would employ commercial lending essentially as a vehicle to maintain their ability to continue as housing lenders. The tendency to stay in housing would be reinforced by the existence of truly rate-sensitive mortgage instruments and the continued existence of the favorable bad debt deduction contained in section 593 of the Internal Revenue Code.

With regard to the assertion that restructuring is a postponable "long-term" problem, we do not think that the current crisis can be dealt with in any meaningful way without restructuring. Thrifts' problems are largely a result of the fact that they have been constrained by law and regulation to operate in a manner inconsistent with the logic of the marketplace. No lasting recovery from their present problems can occur without those constraints being lifted. That it would take some time for the thrift industry to learn to use new powers effectively only argues more strongly for their speedy authorization. As a collateral matter, by enhancing the value of thrift charters, new empowerments would attract more investment dollars to thrifts, thus helping stem the erosion of net worth that is among the industry's greatest current problems.

4. Comments on H.R. 5568 and Alternative Plans

Before turning to the specific proposal, H.R. 5568, on which you have requested our comments, I would like to make some general observations about efforts of this kind. To begin with, I am

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philosophically uncomfortable with the notion of government intervention to prevent corporate failures. It seems generally true that a free enterprise system, to function efficiently, must allow unprofitable institutions to fail. Nevertheless, it also seems true that there are instances when intervention is appropriate to achieve some transcendent national objective. Preservation of vital defense industries is one example. Maintenance of a stable banking system is another. Given the magnitude of the thrift problem, and its implications for the economy in general, it would appear that an enhanced federal presence in some form may be a prudent step within the next eighteen months. Should federal intervention occur, it should be structured in such a way that it is market-disciplined, efficient to administer, and Darwinian in impact, allowing the weakest members of the industry to go out of existence, while preserving the stronger institutions.

H.R. 5568, basically would allow the Bank Board to share access to a $7.5 billion Treasury revolving fund. The fund would be used to provide net-worth and loss-coverage assistance to institutions in order to bring them to, and support them at, a net worth level equal to 2 percent of assets. Although H.R. 5568 would make this assistance available in the form of cash, we understand that Chairman St Germain is considering modifying the bill to use a paper-for-paper approach. This of course, would have the desirable effect of avoiding any significant, immediate adverse impact on the budget deficit, and could, with

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help from interest rates, result in eliminating any important impact whatsoever. The alternative being developed by the Bank Board also would involve exchanges of paper, as would a portion of the program advanced by the United States League of Savings Associations and the National Association of Mutual Savings Banks. If you determine assistance to be necessary, we feel this general approach, which can be supported to a varying extent depending on the size of our line of credit with the Treasury, would provide the most practical way to build a bridge to better times, given overriding budget deficit concerns.

In terms of how assistance would be administered, the Bank Board proposal and H.R. 5568 differ significantly. H.R. 5568 basically would require the Bank Board to keep S&Ls that we determined to have reasonable prospects for long run viability at a 2 percent net worth level for two years, and to maintain such support for up to three years thereafter if we concluded that continuing losses were caused by general market conditions and not by the institution's own actions.

The basic problem with such an approach is that it eliminates any incentive for an institution to cut costs and avoid losses. Indeed, the existence of a safety net of this kind could have the perverse effect of actually stimulating the incurring of losses by individual associations, even though the size and finite nature of the fund from which the subsidy would be drawn ultimately would make such behavior self-defeating for the industry as a whole. While we assume that part of the responsibility

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associated with administering such a program would be to guard against behavior of this kind, such a task would be extremely difficult and time-consuming, requiring us to oversee from an expense standpoint almost every aspect of an institution's operations.

Another difficult challenge would be presented by the stipulation in the bill that eligibility for assistance would turn on the Bank Board's determination that an institution has reasonable prospects for long-run viability. A good faith effort to implement such a standard would be extremely difficult. Also, unless judicial review of our determination were rigidly circumscribed or eliminated, we inevitably would be sued by every disappointed applicant, which would tax the resources of our legal staff enormously.

Furthermore, the bill contains the potential for confronting us, upon the exhaustion of available funds, with very large numbers of institutions at the 2 percent net worth level. Assuming conditions have not significantly improved, a large number of institutions with low net worth would rapidly move together toward insolvency. Coping with such a simultaneous descent to zero net worth could well be beyond the resources of the FSLIC.

As an alternative, we urge consideration of an approach whereby institutions would be divided into classes based on their net worth position, and, depending upon where they fall, would receive an infusion of net worth on a paper-for-paper basis. The amount of infusion would be determined by the average loss

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experience for institutions within the institution's net worth range. Institutions at the lower end of the net worth spectrum would receive a greater infusion than institutions in better condition. This would greatly slow the descent of institutions toward zero net worth and failure, especially those having the most difficulty, without generating potentially dangerous clustering. Viable institutions would have the time and the incentives to take whatever actions were necessary to reduce losses--and we have observed capacity by associations in difficulty to cut costs. Hopeless cases, on the other hand, still would be winnowed out by the marketplace. The use of market discipline, in our view, would eliminate the need for the extraordinary regulatory controls implied in H.R. 5568.

The mechanics of the paper-for-paper approach we are advocating would be simple. In exchange for an interest-bearing promissory note, an association would provide the FSLIC with an income capital certificate. This would provide the association with a net worth boost, and some cash income. Ultimately, the FSLIC would redeem the ICC through payments from the association's net income, unless, of course, the association never returned to profitability and failed.

As an example of the kind of alternative we are suggesting, institutions having net worth greater than 2 percent of assets but less than or equal to 3 percent would receive net worth assistance sufficient to cover 30 percent of the average losses of institutions of similar size within their net worth peer

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group. Institutions with net worth less than or equal to 2 percent but greater than 1 percent would be given 40 percent average loss coverage, while those having net worth in excess of zero but less than or equal to 1 percent would receive assistance equal to 50 percent of the average losses of similarly sized associations within that net worth range. To prevent distortions from arising from an average-loss approach, we suggest that assistance be subject to an absolute limit of 100 percent of the recipient association's actual losses.

Because experience may show this particular approach to be less than optimum, the Bank Board should retain complete flexibility to alter the relevant parameters. Moreover, to ensure that the program does not result in providing assistance to institutions in clearly hopeless condition, the Bank Board would prohibit participation or require a merger resolution from participating management when it becomes evident that net worth will be exhausted within a short period. As an additional matter, the Bank Board should not provide assistance to associations if it determines that ultimately it would be cheaper to liquidate or otherwise deal with the association.

The Bank Board could initiate such a program without an increase in our line of credit to the Treasury, although a subsequent increase might be required. Any increase in the Bank Board's line of credit to the Treasury would increase our capacity for administering such a plan, as well as contribute to its acceptance by the financial community. Our ability to infuse

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net worth in the manner I have outlined is very dependent on the size of our resources and the extent of our commitments. Acceptance would also hinge greatly on the clear availability of the line of credit to fund these obligations should that become necessary. The Bank Board is presently examining needed statutory changes to facilitate a program of the type described, and we will transmit these needs to Congress.

Another significant difference between H.R. 5568 and the Bank Board's proposal is with respect to a housing link. H.R. 5568 essentially would require an institution receiving assistance to devote 50 percent of its net new deposits to 1- to 4-family mortgages at rates one percent above the institution's average cost of funds. We would not favor such a requirement. While it would have no real impact at present, given current thrift savings flow experience, once this situation improved, it would act as a drag on the ability of thrifts to regain profitability, thus increasing the length of time they would be required to rely on federal assistance. If assistance for homebuyers is regarded by the Congress as desirable, we suggest that a more direct subsidy device be employed, and one that does not have the negative feature of hindering the return to health of the housing sector's primary traditional source of credit.

As a final matter, I note that an important similarity between H.R. 5568 and our proposal is that assistance would be provided to the S&L industry through the Bank Board. This would continue to assure a coordinated, cost-effective approach to the industry's

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problems. Regulation of the S&L industry always has profited by the fact that all federal regulatory responsibilities for savings and loan associations are under one roof. The proposed Community Depository Conservation Corporation would break that pattern, imposing a cumbersome and confusing system of dual regulation at the federal level.

5. Conclusion

To conclude, Mr. Chairman, the thrift industry is undergoing a severe crisis. If rates improve over a significant period of time, we can handle our responsibilities with available resources. If they do not improve, the situation could require additional federal support. We believe Chairman St Germain has provided an invaluable service by opening formal discussion on this issue through introduction of H.R. 5568. If Congress believes it would be proper and prudent to supply this federal support now or in the future, we have suggested what we believe is an easily administrable, cost-effective, and market-disciplined approach that could avoid aggravating budget deficit problems, while buying time for large numbers of potentially viable thrift institutions. We must reemphasize, however, our conviction that restructuring legislation should be enacted without delay. It offers the only real route to thrift survival.

Mr. Chairman, this concludes my remarks. I would be pleased to answer your questions.

Note: In accordance with 12 U.S.C. § 250, this statement has not been reviewed outside the Federal Home Loan Bank Board and does not necessarily reflect the views of the President.

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Chairman GONZALEZ. In view of the fact that you have this time constraint we will go into the question period and, as I said earlier, it is my intention to turn it over to Chairman St Germain, except that maybe the fastest way is to go on ahead and ask one question at this time and ask unanimous consent that I may be permitted to submit about three additional questions in writing for you to answer in the transcript.

Let me say that as I think the last appearance of yours and the last action we took last year, almost on an emergency basis, clearly indicated my feeling. Frankly speaking, I do not think there is any mystery to the fact that bookkeeping gimmickry is what the Bank Board has been doing up until now.

Plus, efforts like the one announced day before yesterday, I believe, on this new certificate and the like, in which a policy that I think is contrary to the traditional role of locally controlled savings and loans is being destroyed by these mergers arranged by the FSLIC.

And while this might be appropriate, my concern is actually for the traditional role of the institutions and as they impact the fundamental question of housing and the line of credit for housing and the future of this role. At this point S. & L.'s are compelled to come in and must act like banks because they have got to compete for funds and they cannot, there is no way that I know that they can do so.

So I think we ought to be blunt. How in the world can anything be done at this point short of having to have what the incantations require that you be against, and that is some direct help in order to pick up the low yielding paper that these institutions are loaded down with?

This whole thing is on the verge of collapse not only on this level but on the more important level of the secondary mortgage market, where these institutions have billions and billions and billions of dollars at stake, and not only S. & L.'s but banks, believe it or not.

So my question is simply this: How in the world, without kidding ourselves, can we really face this issue without resolving the fundamental question of how can we take up this paper that these institutions have at 6, 7, 8 percent when they are having to pay out 15 percent and the like?

In my opinion, this is where we should have started. How can we find a mechanism? Now I do not know how to do it unless we take the President's pedestal away and have to resort to this awful thing known as Uncle Sam bailout. But I do not see any other way, do you?

Mr. PRATT. I think that the issue you have posed is a very fundamental one. I believe it really depends on whether or not Congress believes interest rates can be brought down. We are clearly following a strategy which buys time. We have no choice. We have limited resources, and we cannot solve the problem of the low-yielding portfolio.

Congress obviously can address that issue, but the funds involved are immense at a very basic level. We have been stewarding the resources we have, and we have been buying time and we have

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been following a course of action which will not increase the ultimate cost to the Federal Government.

In that sense I think it may be a very appropriate strategy because all of us—the Congress, the administration, each of us—are working toward getting interest rates down. If interest rates come down, this tab will not have to be picked up. So Congress really has the issue of deciding whether we should work for a period of time toward a time when interest rates are lower or if we should go ahead and write the check now and get on with it.

I think that is a basic question that you have to answer.

Chairman GONZALEZ. Well, sir, we have. We have attempted, and this idea of waiting for interest rates to fall when it is clearly indicative of the lack of will on the part of those that control the factors that lead to that. They are not about to unless the Congress does wake up and finally do something, but it is not, and interest rates are not likely to go down.

I think the important difference is that what I am speaking of—these low-yielding mortgages—I am not talking about something that is a loss. Those are very valuable assets and I think that if we look upon it from that standpoint these are solid assets that are assets of wealth to the country.

They have to do with very fundamental positions and I see no reason why we do not work a scheme of HOLC in reverse. Why wait? Why not try to keep homeownership, the bulk of it in this Nation instead of waiting until there is a catastrophe and it goes under? I do not understand why this interpretation of the low-yielding mortgage assets are considered such a detrimental and bad thing that they cannot be used as a base for working out a method of saving what we have now in homeownership.

Mr. PRATT. Well, the low-yielding mortgages, while being certain to pay off, do have a very substantially reduced value and while it is a different problem than defaults, it is just as real in terms of the loss of value.

An 8-percent mortgage today is worth about 62 cents on the dollar. If you had a 10-room house, it is like 3.8 rooms burning down. Even though the physical value is clearly there, it is there for the homeowner, but it is clearly not there for the institution. The institution only has a right to receive payments. Those payments have shrunk in value by 38 percent.

Chairman GONZALEZ. True, but if the prognostications of the President and the administration with respect to the program are true, then the mechanism we could use now through the secondary mortgage market could work out and there would be no loss. You would have what we had with HOLC and that is a net gain to the Government.

Mr. PRATT. We have supported this kind of program through several instances. One, we have pushed the Federal Home Loan Mortgage Corporation as aggressively as possible to continue to support the secondary market.

Second, we have instituted an instrument which we believe does precisely what you are talking about, and that savings and loan associations have used fairly aggressively, called a consumer repurchase agreement, which allows them to pledge their securities, in-

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cluding mortgages which have been turned into FHLMC PC's to obtain money in the market. This has been extremely helpful.

So we share that opinion, if I understand your direction correctly.

Chairman GONZALEZ. Well, my time has expired. In fact, I overran.

Mr. Stanton.

Mr. STANTON. Thank you very much, Mr. Chairman. Gentlemen, welcome.

The chairman has stated that this is the second day of 3 days of hearings we are having specifically on the chairman's bill, H.R. 5568. Let me for the minority stress how we look at H.R. 5568. We compliment the chairman for the introduction of this legislation with the idea in mind—and we had discussed this—that he is not, I am sure, looking for every "t" to be crossed and every "i" to be dotted. But he was in the forefront of bringing the subject to a head.

We will in the legislative process, if he is agreeable, be flexible. We compliment him in bringing his bill out for discussion purposes. At the same time we thank you both for your contributions. You will probably play as important a part in this as anyone else in helping Congress finally formulate its policy on this major problem.

I wondered if you would comment, Mr. Chairman. I sense you know that we are looking at the immediate problem. Part of the immediate problem of the thrifts, of course, is an emergency problem, and part of it is a long-term problem.

This legislation is involved with both. I sense that there are problems, which are legitimate ones, I think, with any legislation which you may not be able to enact in time for it to have the desired effect by the time Congress passes a bill, with White House backing questionable, it may be next year almost before some parts of this legislation can be implemented.

You call something an emergency to answer the problems of the spring and summer. But I do sense that some of what you want to see in additional powers for these institutions might be combined in this legislation with some of the emergency steps that we have to take to help the same institutions. That is my first observation.

You spoke about high interest rates and, of course, my little bankers are well aware of the actions taken on Monday by the DIDC. Where you have congressionally mandated by the committee artificially higher interest rates for one segment of the industries over others, as a result of the quarter-percent differential, do you not think that if we could phase in the additional powers that these institutions want that the quarter-percent differential would any longer be a necessity for these institutions?

The fact is, do you not think it would be unfair if we gave additional powers and then still kept the differential years down the road?

Mr. PRATT. Yes, sir. I think that is a tradeoff which is certainly appropriate over time. When you look at this basic issue, the way the two sets of institutions are structured right now you have to ask the question, "What can a savings and loan do, that a bank

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cannot do?" The answer is "Virtually nothing." There are some very peripheral things, but almost nothing.

When you turn the question around and ask what a bank can do that a savings and loan cannot do, you get a very substantial list, the two great items being corporate checking accounts and commercial loans. There has been a lot of discussion concerning this, but given the fact that a consumer or small businessperson simply cannot get full service from a savings and loan association or a thrift, I think you have to ask the basic question. At the same interest rate, why on earth would anyone stay with a thrift over time?

I do not think there is any answer to that. I think you have very correctly identified the situation that as the powers are equalized and as competitive quality through opportunity to operate is equalized, then a differential in terms of the acquisition of funds would no longer be appropriate.

Mr. STANTON. I have two requests, Mr. Chairman. First, the minority do have questions—several pages for Chairman Pratt and also for Mr. Isaac. I would ask unanimous consent that these could be answered later for the record.

Chairman GONZALEZ. Without objection, so ordered.

Mr. STANTON. Lastly, Mr. Chairman, in the dialog that the Chairman was having with you he referred, of course, to what we hope will never happen—the eventual buyout of the old, low-yielding mortgages which some believe is the answer to the problems of the thrift institutions and which I review as a last resort. It was suggested that this indeed was taking place at the present time through some innovative programs that you are doing at the present time, funneling, and packaging these programs through FHLMC.

That brings up to me the subject that we will have to face sometime of the restructuring or the recapitalization of FHLMC. Can you give me your thoughts on that?

Mr. PRATT. Yes, sir. I think that would be very appropriate and very helpful and would assist the Congress in some of the problems it is facing.

To the extent that FHLMC now is in a sense an agency of the Government or reflects Government credit—this sort of thing—it seems to me that it does raise questions with respect to the whole budget area, as well as the Federal presence in capital markets. Beyond this, FHLMC needs additional capital.

If it is supplied at the present time, it is through some aspect of the Federal system. By privatizing this corporation, it would be supplied through the private capital markets. I think that Congress did a tremendous thing in establishing FHLMC. It was a test program and it was courageous and innovative of Congress to approve that.

FHLMC has been very successful. It has made a lot of sense. It is no longer a test baby, but is a very successful business operation and is a business operation of the type that can operate in the private market. It should now be turned loose. Maybe we should think together of a new vehicle for providing test tube seed capital for the provision of mortgages—as FHLMC did in its inception—and perhaps repeat the experiment.

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But at this time it would be a very effective private market competitor.

Mr. STANTON. Thank you very much, Mr. Chairman.

Chairman GONZALEZ. Mr. St Germain.

Mr. ST GERMAIN. Thank you, Mr. Chairman. I think it is regrettable that since we contacted you March 4 about testifying that we have an 11 o'clock deadline on an 11 o'clock plane to catch. Frankly, do you not think that this subject and this committee and its deliberations are of paramount importance to the future of the thrift industry that you are charged with shepherding along?

Mr. PRATT. Absolutely, and if you require my continued presence I will simply not do that. However, given the scheduling problems that exist, it was a commitment that I had previously. But your concern with this is of paramount importance to me and I will meet your schedule.

Mr. ST GERMAIN. I would hope so.

Picking up on what Mr. Stanton just said relative to the recapitalization and restructuring of FHLMC, I wish that you would for the record supply us with your thoughts as to why—FNMA, as you know, is out there as well—give us a sheet, a comparison sheet, as to what FHLMC can do that FNMA is not doing at the present time.

That would be helpful to us because we are indeed faced with this request from FHLMC and rather than just have you expound as you just did on the benefits, that you give us a comparative analysis and we will accept that for the record.

In your testimony you state that if the legislation were to be enacted giving net worth guarantee certificates, that it could militate against institutions cutting costs and improving management. Am I quoting you accurately?

Mr. PRATT. Essentially, yes, sir.

Mr. ST GERMAIN. Doesn't the Home Loan Bank Board at the present—and I mean this seriously—with its very efficient staff, does it not have an obligation and does it not go into these institutions and point out to the institutions where they can indeed cut costs and state in certain instances that perhaps they should look to some improved management?

Mr. PRATT. For the most part it has pretty limited ability in that regard, and to do so on a very widespread basis would be extremely difficult. What we would really do, if you had a situation where we were guaranteeing the expenses of associations, we would obviously develop that capability.

I am not sure Congress would like to encourage this, because if you are covering the total losses of these institutions what you have created are really branch post offices or branches of the U.S. Congress, and I don't think anyone who is familiar with the bureaucracy of the agencies such as ourselves and others and the operation of the Federal Government would find it efficient to turn these institutions into that sort of an organization.

Mr. ST GERMAIN. Well, if one were to study the legislation that was adopted to assist New York City, Lockheed, Chrysler you would find that at the present time, for instance, we have people from Treasury at Chrysler on a continuing basis monitoring and in-

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suring that management is efficient and that costs are cut to the bone.

Are you aware of that fact?

Mr. PRATT. I was not aware of it specifically, but remember, there are 4,000 of these institutions and I would really question whether the direction Congress would like us to go, if that is Congress mandate for successful operation of a financial system.

Mr. ST GERMAIN. I am going to ask a question of both of you, even though we have not heard from the distinguished Chairman of the FDIC. In fact, Chairman Isaac's testimony suggests that the bill be amended to give the insurance agencies explicit authority to order management changes in assisting institutions, very similar authority provided in New York City, Lockheed, and Chrysler that was approved by this very committee.

I would ask both of you, do you need this additional authority? Obviously Chairman Pratt does not feel as though he has the authority or that you have not been exercising it?

Mr. PRATT. Well, the general authority which we have is to prohibit unsafe and unsound transactions. However, if an association were receiving assistance to keep it at a certain net worth it would clearly be both safe and sound, for example, for it to sell a major portion of its portfolio, take the loss on that, bring the portfolio to market and tap the Government for the infusion.

I would not expect that this is what Congress had in mind because it would allow tremendous variations between institutions. I am just concerned that the amount of regulation and oversight which would be required if the program which is implemented does not require some market discipline would be a tremendous burden and cause a tremendous increase in our bureaucratic staff.

Mr. ST GERMAIN. When we originally drafted the bill we included the words that the institutions must meet all requirements established by the Agency. Now I will go to Mr. Isaac.

In view of your statement in the record and your statement in your testimony, you do not feel as though that phrase is sufficient and you would like a little more explicit authority to be contained in the legislation. Do I interpret your statement correctly?

Mr. ISAAC. We believe, Mr. Chairman, that the bill gave the authority, but particularly since the program would be administered by three different agencies, it ought to give more direction so that the three agencies are not doing different things.

If we were administering the program I think you would find some fairly stringent terms and conditions imposed in exchange for the capital infusion.

Mr. ST GERMAIN. As well as preconditions which would answer the point that Chairman Pratt just made.

Mr. ISAAC. That is correct. We would want some controls in place before we would be willing to make capital infusions.

We felt that the bill should give direction in that regard, not just authority, so that the agencies would administer it in a like manner.

Mr. ST GERMAIN. Was I misinformed? I think a little bird whispered into my ear a statement to the effect that the regulatory agencies involved, the FSLIC and the FDIC, were going to give some thought to recommendations to the committee on this very

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question, that is, what specific direction you would like to see contained in the legislation?

Mr. ISAAC. Yes, we would be.

Mr. ST GERMAIN. Have you and your staff been laboring in this vineyard?

Mr. ISAAC. Yes, they have.

Mr. ST GERMAIN. When can we anticipate a recommendation?

Mr. ISAAC. I think it would not take more than a few days.

Mr. ST GERMAIN. Chairman Pratt?

Mr. PRATT. We will do the same.

Mr. ST GERMAIN. Am I incorrect in assuming that you indeed had embarked upon this endeavor already?

Mr. PRATT. I would have to check with the staff, Mr. Chairman, but if we have not, we will meet the same time schedule in any case.

Mr. ST GERMAIN. As I stated, your concern is that management might take losses ahead of time and then apply for a net worth guarantee certificate. I certainly agree and certainly it seems to me that that is, you might say, one of the preconditions that they not have acted in that manner.

Mr. PRATT. If I might point out just one fact—and Bill can comment on this—he may have 50 or 100 institutions, I don't know how many exactly, that would be expected to participate in a program of this type out of the several thousand institutions he supervises. Out of the 4,000 that we have some oversight over, we may have 2,000 participating. We normally examine, let's say, every 18 months.

I just would like to point out that the administrative aspects that could be associated with this type of a circumstance——

Mr. ST GERMAIN. Are you not at the present time utilizing income capital certificates?

Mr. PRATT. Yes, sir.

Mr. ST GERMAIN. And does not the utilization of those require very close monitoring as well?

Mr. PRATT. Yes, it does, and we have only four or five institutions which are taking a substantial amount of time in that regard.

Mr. ST GERMAIN. Let's get back. Every time you testify, and I understand, you tell us about the broadening of powers, but the reason that these institutions are in the dire straits that they are in primarily is due to the prolonged period of unbelievably high interest rates.

No one can argue with that, correct?

Mr. PRATT. That is correct. The inflation and interest rates are the basic cause.

Mr. ST GERMAIN. Prior to that, sure you had some institutions that may have had problems but they oftentimes had nothing to do with the economy but rather with poor judgment, poor management, and just bad management.

Mr. PRATT. That is correct.

Mr. ST GERMAIN. Now as to the added powers, frankly I think that what occurred Monday has probably raised some hackles and those negotiations are going to be that much more difficult because the parties who are unhappy about added powers for S. & L.'s are going to be unhappier still.

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Mr. Stanton asked you the question, and I put it to you this way: Do you feel that if the S. & L.'s were to be given the added powers, certainly not to the extent contained in the legislation you presented to the Senate—a good part of it, let us say—that this should automatically be accompanied by elimination immediately of the differential?

Mr. PRATT. I think it should be a matter of negotiation and phasing.

Mr. ST GERMAIN. Phasing, not immediate. They would not go in concert, hand-in-hand, and happen at the same time?

Mr. PRATT. Well, in my personal opinion that would be a worthwhile tradeoff, but I am not sure it is the best approach. But I would certainly say that, given the importance of powers for the long-run survivability and the health of this industry and its ability to finance housing, if it came to a question of giving up the differential, in my opinion, it should be given up for the broadened powers.

Mr. ST GERMAIN. I would commend to you a trip to Rhode Island sometime. Speak with the presidents of the institutions there that I think 16 or 18 years ago were given the additional powers that are now being sought for the thrifts nationally.

In that instance, the thrifts in Rhode Island also have commercial banks. You go in one door in the thrift. You go through the connecting door and you are in the commercial. You would find that to this date the thrifts in Rhode Island have not been able to convince people of the fact that they have all the powers and all the amenities of a commercial institution.

They cannot understand it, and it has been impossible for them to convince their customers, their depositors, their potential customers, of the fact that they are both commercial and a thrift, to wit that they have commercial powers.

I think that that would be most rewarding. The reason I say that is, you know, all of these institutions—1,000 of them up there—the U.S. League testified there is a $90 billion exposure and I think they took their numbers from your numbers, are not going to be assisted by additional powers in an expeditious enough manner to help them over this crisis that they face at this very moment.

That is why I brought up the legislation that I did, to help on the net worth to tide them over.

Mr. PRATT. We certainly feel consideration of this is very timely, and if there was any misunderstanding, there certainly should not be.

We fully agree that the discussion of this is totally appropriate at this time.

Mr. ST GERMAIN. Let me ask you this. If this legislation with suggestions from Mr. Isaac and yourself plus others were to be enacted within the next 2 months, how long would it take you to begin to utilize the net worth guarantee certificates?

Mr. PRATT. I believe we could do that within 30 days.

Mr. ST GERMAIN. Mr. Isaac?

Mr. ISAAC. I think we would be able to put it into effect within a few weeks if the proper cases were ready.

Mr. ST GERMAIN. But you would have it available to you?

Mr. ISAAC. That is correct, and it would not take us long.

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Mr. ST GERMAIN. So it would not take a year, would it?

Mr. PRATT. No, it would be very quick.

Mr. ST GERMAIN. I assume my time has expired.

Chairman GONZALEZ. Mr. Wylie.

Mr. WYLIE. Thank you, Mr. Chairman. I wanted to followup on that, Mr. Pratt, and followup on it by rather summing up my frustration with this whole problem.

You referred a little earlier to the fact that we have guarantor 1 and guarantor 2 and PC's now, which has of course reduced the drag considerably on the S. & L.'s and has been helpful and I do not discount that. That does not get to the low interest rate problem, short term, or the high interest rate problem short term. It does not get any low interest rate money into the thrift institutions short-term.

You indicate in your testimony what will happen if interest rates continue for a long period of time, but you do not say how long. You mention here, "Specifically, we believe it is critical that the Congress launch without delay the asset and other restructuring"—the new powers thing. In your testimony, "the asymmetrical approach to deregulation is inherently unworkable. With regard to the assertion that restructuring is a postponeable long-term problem. We do not think that the current crisis can be dealt with in an immediate way without restructuring."

I really want to help, if you please, and I might ask parenthetically what do you think of the results of DICC's new power, the money market certificate which was suggested yesterday?

Mr. PRATT. I think it is a modest beginning. I think the effects of it will be felt in a couple of directions. One, I think it does provide some modest additional competitive ability with nonregulated institutions—that is, money market mutual funds—in the sense that it did cut the maturity in half, from 6 months to 3 months, and it did lower the required minimum from $10,000 to $7,500. Two, the differential will have some impact in shifting funds toward thrift institutions from the commercial banking sector, and that is very clear that that would be the design of that differential.

People may argue as to the appropriateness of that. You have heard my belief that in fact, given the present structure, thrifts simply cannot compete with commercial banks.

Mr. WYLIE. It still does not give them access to money at the market rate.

Mr. PRATT. It does give some access. It is clearly not as flexible or attractive as what the money market funds can offer in terms of denomination, availability or rate.

Mr. WYLIE. Now that is going to give them a new tool which they can market and perhaps bring some new money and the differential probably will help the thrifts and the commercial banks, of course, are upset about that again.

Mr. PRATT. I can believe that.

Mr. WYLIE. But that is still going to cost a considerable amount for new money, is it not?

Mr. PRATT. It may or may not. The issue is whether there will be a shift from passbooks, and that is clearly a concern. This is sort of the horns of a dilemma that the DIDC constantly faces. Anything that is highly competitive with money market funds also runs the

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risk of internal transfers, that is, from a 5- or 5¼-percent account to a 10-, 12-, or 14-percent account, and I have not found any easy answers to that. I wish there were.

Mr. WYLIE. Well, specifically, do you think this is going to help get new money in which can be loaned out at reasonable interest rates short term?

Mr. PRATT. I think it is going to help bring money into the thrifts. I believe that it will help marginally in competition with money market funds. I believe it is a positive aspect which will positively impact profitability and return to health.

It certainly is not a total answer or anywhere near that, but I do believe that its effect is positive and I support it.

Mr. WYLIE. Good. I guess I want to revisit Mr. St Germain's question again. Do you think that his bill will help short term?

Mr. PRATT. Well, certainly if the question is whether it will keep savings and loans operating which otherwise would disappear, the answer is yes.

Mr. WYLIE. Thank you very much, Mr. Chairman.

Chairman GONZALEZ. Thank you, Mr. Wylie.

Mr. Pratt, we understand Chairman St Germain has some questions, but if he is not in a position to do so I think we should go on ahead and excuse you.

I do want to make an observation, and that is that the main thrust of our hearings has to do with the Housing and Urban Development Act of 1982 and our concern from the housing standpoint for the poor and moderate income. I realize that the thrust of this other bill is actually an emergency type of thing for the time being and I am concerned about the long-range situation of the traditional savings institution with respect to their providing the credit for homeownership and home construction.

Chairman St Germain, I think you have some questions.

Mr. ST GERMAIN. Chairman Pratt, in your statement you also referred to the requirement in the legislation that 50 percent of the new funds be reinvested in housing and you questioned the wisdom of that.

I would just say to you keep one thing in mind. This legislation is being heard in conjunction with legislation known as the housing bill and the housing industry is not on its knees. It is not on its back looking up. It is on its stomach with its face right in the ground, in the mud. There are millions of people out of work around the country because of what has happened to the housing industry.

No matter what we do as a practical matter under this housing bill, it is just a drop in the bucket—just a drop in the bucket. Real activity in housing has to come in the private sector, not in the subsidized sector, despite the fact that there is a great need out there by low-income people for housing.

That is not what is going to reinvigorate the housing industry. The housing bill is not going to do all that much to help Joe Sixpack to be able to realize the American dream to own his own home for his family. That dream is only going to be realized if there is a source of mortgage financing, home mortgage financing, out there around the country.

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This is the primary reason. One is to help save the thrifts. Second, we look at the exposure of the insuring fund unless something is done, because, let's face it. You are going to run out of merger partners one of these days and once that happens, what is your alternative but to shut them down. Once that begins, then the costs start to rise.

We want to keep those institutions viable. We want to keep them functioning so that they can be a source of mortgage money, and that is why the provision in the legislation requiring that a certain percentage of the funds be reinvested in housing. I would just ask you to keep that in mind because we are looking, as I told you before, for your suggestions.

Bill Stanton was right. I did not introduce this legislation feeling that it was absolutely and totally perfect. I wanted to get the whole thing off the dime and get things moving and so we are looking to your assistance and that of Mr. Isaac, of the Treasury and other interested parties. We are going to take your recommendations into account and we are going to make changes in the legislation.

We are going to rewrite the bill. But please, when you make your recommendations remember that in order for this legislation to be palatable and acceptable to get the necessary support the American people have to have a feeling that it is not a bill that is just designed to preserve the thrifts but rather that it is designed to preserve the thrifts so that they can continue to make home mortgages.

Mr. PRATT. Mr. Chairman, I do not believe I have any problem at all with requiring that 50 percent of new savings go into mortgages. As I recall from the bill, it suggested that 50 percent go in at 1 percent over the average cost of funds of the institution.

We think that would be inappropriate and would probably hurt housing and would clearly hurt thrift institutions, because what thrift institutions would be doing is buying 16-percent money or 14-percent money and lending it at 11.5 percent.

Further destroying the thrift institutions, I don't think, would be the desired way to help housing.

Mr. ST GERMAIN. Well, we would ask you for your recommendations, and accompanying the recommendations the very thorough analysis and rationale, because no one has more information at hand than you do about the conditions of the thrifts, what they can do and what they cannot do.

Mr. PRATT. We appreciate that we will supply everything.

Mr. ST GERMAIN. We want your contribution because it will be of utmost importance to us as we deliberate.

Mr. PRATT. We would certainly be delighted to supply it.

Chairman GONZALEZ. Thank you, Chairman Pratt. If you are traveling other than private, I hope you do not have to go to Dulles, but you can still use National. We want to thank you very much and hope that we enabled you to catch your plane.

Mr. PRATT. I appreciate that accommodation very much, and if there is further need of me I will make whatever changes are necessary.

Chairman GONZALEZ. Thank you very much, sir.

Mr. Isaac, thank you very much for your patience and I recognize you now at this point. You may proceed as you see fit. If you

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want to present your written testimony, we want to thank you for that because it was submitted in timely fashion, has given us an opportunity to review it, and you may proceed by adhering to the text of it, or we can accept it for the record at this point and you may wish to summarize.

Whatever it is you wish to do that would be fine with us.

Mr. ISAAC. It is very brief so I could go right through it, if you would wish, Mr. Chairman.

Chairman GONZALEZ. Very well.

STATEMENT OF HON. WILLIAM A. ISAAC, CHAIRMAN, FEDERAL DEPOSIT INSURANCE CORPORATION

Mr. ISAAC. Mr. Chairman, I appreciate this opportunity to present the views of the Federal Deposit Insurance Corporation on the plan embodied in H.R. 5568, the Home Mortgage Capital Stability Act.

The thrift industry currently is experiencing unprecedented difficulties. Government policies, economic conditions, competitive factors in financial markets and management shortcomings have all contributed to the difficulties. The problems, whatever their origin, are real and we commend you for your efforts to address them.

Assuming funds can be allocated to this endeavor without increasing upward pressures on interest rates, the FDIC could accept a well-structured program of temporary financial assistance to distressed financial institutions. In considering such a measure, however, we should recognize that persistent high interest rates are a basic cause of widespread economic troubles and a major cause of the problems of thrift institutions. A program of financial assistance for depository institutions, if not approached within the context of an overall strategy that exerts downward pressure on interest rates, is likely to be self-defeating.

Moreover, we believe a program of financial assistance ought to be accompanied by other measures that together form a well-rounded program for the revitalization of our depository institutions.

Very briefly, we believe that program should include: First, enactment of the regulators' bill; second, provision of new asset powers for thrift institutions; third, Federal legislation to preempt State usury statutes and prohibitions on enforcement of due-on-sale clauses; fourth, comparatively swift deregulation of liabilities with emphasis on a short-term instrument that can compete effectively with money market instruments; and, fifth, possibly some soundly conceived changes in accounting practices—a matter we are currently working on.

Given such a program, stronger thrifts could begin to diversify their asset structure and return to profitability. Within that context, a program of financial assistance could provide the means for many institutions to weather the transition. Without a comprehensive program, however, we are simply gambling that economic conditions will return to what has always been considered "normal" and that thrifts will then be able to profitably return to the old ways of doing business.

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We believe such a course would be imprudent. The marketplace has served periodic notice over the past 20 years that our system of mandatory specialization, accompanied by rigid interest rate controls, is no longer viable. We have not paid adequate heed to those warnings and, as a result, the problems of our thrifts have grown steadily worse.

If we have learned anything from the present plight of the thrift industry, it is that private financial institutions cannot afford to subsidize housing finance and savers are not willing to do so. If we wish to provide a special subsidy for housing finance, it ought to come directly from general revenues and be paid to any lender as an inducement to make housing loans at below market rates or directly to home buyers to permit them to better afford the market rate.

Having said that, let me turn to the question at hand—a program of financial assistance. We would like to offer our ideas about how such a program should be structured.

Our first tenet is that the assistance should be available only on a selective basis. Inept management should not be subsidized with funds intended to provide temporary relief to victims of unexpected and unprecedented economic conditions.

When the regulators' bill was before this committee last year, you thought we were too restrictive in our request to redefine our authority to provide financial assistance under section 13(c) of our act. As a result, you broadened that authority—and we have endorsed your language—but you were careful to leave us discretion to distinguish between those institutions that could really benefit from assistance and those for which it would be a waste of money.

Second, we believe an assistance program should be structured to be economically sound and to create options and incentives for the recipients to correct the underlying causes of the difficulties, principally the interest rate mismatch between assets and liabilities.

Even within the existing framework of law, there is room for some of this, but we cannot overemphasize the need for broader asset powers and deposit deregulation to enable thrift institutions to grow out of their current difficulties by competing effectively and increasing earnings.

We must be frank and tell you that nothing concerns us more than the bill's requirement that 50 percent of net new deposits be invested in 1 to 4 family mortgages for first time home buyers at an interest rate 1 percent above the institutions' average cost of funds. Much of the present thrift dilemma is attributable to the mismatch between long-term, fixed rate assets and short-term, high rate liabilities. The bill's provisos would perpetuate and even compound these problems.

Without a short-term deposit instrument to allow depository institutions to compete effectively in current markets, we feel certain there will not be much in the way of net new deposits. Even assuming such an instrument is authorized and new funds are attracted at current market rates, their costs could be well above current average costs. Under the bill's provision requiring that loans be made at 1 percent over average costs, the result could be to lock the institutions into a continuing loss position.

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Unless the assisted institutions were able to invest the other 50 percent of their net new deposits at very high returns, it seems highly unlikely that any institution could strengthen its situation under this scenario.

Third, there should be some discipline over management and management practices exacted as a price for financial assistance. On previous occasions this committee has enacted financial assistance programs for Lockheed, New York City, and Chrysler Corp. In each instance disciplines have been imposed as a price for the taxpayers' support. There is no less reason for such requirements in the measure now before you.

We would urge that any bill grant the regulators clear authority and direction to impose sanctions against management. We have in mind authority to enforce a decrease or prohibit any increase in the compensation of officers, trustees, or directors so long as assistance funds remain outstanding and the authority to require management changes in assisted institutions when believed necessary to achieve operating improvements.

We believe the bill should also grant the regulators authority and direction to place operating controls on the activities of assisted institutions while the assistance remains outstanding. We do not believe that an institution should receive taxpayer funds and then simply continue to do business as usual.

There should also be clear authority and direction for the regulators to terminate payments to those institutions which are clearly on the path to failure. It makes little economic sense to dissipate the taxpayers' money by continued payments to institutions that continue on a down-hill path despite the Federal assistance.

Finally, the bill does not address one serious problem we wish to call to your attention. Some States and localities, most notably the States of New York and Massachusetts and the city of New York, levy a franchise tax on mutual savings banks.

The tax is based on the volume of deposits without regard to whether a bank is making or losing money. The result is that if you were to enact this bill a large percentage of the assistance payments would flow directly through the troubled institutions to the local government imposing this unjust and burdensome tax.

We believe this is undesirable and that you should include in the legislation a proviso which would require that any State or local government with such a tax would have to waive it for institutions being assisted under the act until repayment is effected.

Mr. Chairman, we understand that it is the subcommittee's intention to make major modifications to the bill. For this reason we have confined our comments to the general principles we feel should be considered in your ultimate package. Our staff would be more than happy to work with you in any way possible in shaping the bill and I will be happy to answer any remaining questions that you might have.

[Mr. Isaac's prepared statement, on behalf of the Federal Deposit Insurance Corporation, follows:]

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STATEMENT ON

H. R. 5568, THE "HOME MORTGAGE CAPITAL STABILITY ACT"

BY

WILLIAM M. ISAAC, CHAIRMAN
FEDERAL DEPOSIT INSURANCE CORPORATION

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institutions. Very briefly, we believe that program should include:

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2. provision of new asset powers for thrift institutions;

3. federal legislation to preempt state usury statutes and prohibitions on enforcement of due-on-sale clauses;

4. comparatively swift deregulation of liabilities with emphasis on a short-term instrument that can compete with money-market instruments; and

5. possibly some soundly-conceived changes in accounting practices -- a matter we are currently working on.

Given such a program, stronger thrifts could begin to diversify their asset structure and return to profitability. Within that context, a program of financial assistance could provide the means for many institutions to weather the transition. Without a comprehensive program, however, we are simply gambling that economic conditions will return to what has always been considered "normal" and that thrifts will then be able to profitably return to the old ways of doing business.

We believe such a course would be imprudent. The marketplace has served periodic notice over the past 20 years that our system of mandatory specialization, accompanied by rigid interest rate controls, is no longer viable. We have not paid adequate heed to those warnings and, as a result, the problems of our thrifts have grown steadily worse.

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between assets and liabilities.* Even within the existing framework of law, there is room for some of this, but we cannot overemphasize the need for broader asset powers and deposit deregulation to enable thrift institutions to grow out of their current difficulties by competing effectively and increasing earnings.

We must be frank and tell you that nothing concerns us more than the bill's requirement that 50 percent of net new deposits be invested in one-to-four family mortgages for first time home buyers at an interest rate 1 percent above the institutions' average cost of funds. Much of the present thrift dilemma is attributable to the mismatch between long-term, fixed-rate assets and short-term, high rate liabilities. The bill's provisos would perpetuate and even compound these problems.

Without a short-term deposit instrument to allow depository institutions to compete effectively in current markets, we feel certain there will not be much in the way of net new deposits. Even assuming such an instrument is authorized and new funds are attracted at current market rates, their costs could be well above current average costs. Under the bill's provision requiring that loans be made at 1 percent over average costs, the result could be to lock the institutions into a continuing loss position.

* It is essential that a limitation-- providing that no extraordinary gains or losses shall be included for purposes of qualification for the program or for quarterly payments -- be imposed to keep the program from becoming a buyout for all the unprofitable assets on the institutions' books. Moreover, any advances under the program should be required to be paid back with interest out of future earnings.

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Unless the assisted institutions were able to invest the other 50 percent of their net new deposits at very high returns, it seems highly unlikely that any institution could strengthen its situation under this scenario.

Third, there should be some discipline over management and management practices exacted as a price for financial assistance. On previous occasions this Committee has enacted financial assistance programs for Lockheed, New York City and Chrysler Corporation. In each instance disciplines have been imposed as a price for the taxpayers' support. There is no less reason for such requirements in the measure now before you.

We would urge that any bill grant the regulators clear authority and direction to impose sanctions against management. We have in mind authority to enforce a decrease or prohibit any increase in the compensation of officers, trustees, or directors so long as assistance funds remain outstanding and the authority to require management changes in assisted institutions when believed necessary to achieve operating improvements.

We believe the bill should also grant the regulators authority and direction to place operating controls on the activities of assisted institutions while the assistance remains outstanding. We do not believe that an institution should receive taxpayer funds and then simply continue to do business as usual.

There should also be clear authority and direction for the regulators to terminate payments to those institutions which are clearly on the path to failure. It makes little

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economic sense to dissipate the taxpayers' money by continued payments to institutions that continue on a down hill path despite the federal assistance.

The bill does not address one serious problem we wish to call to your attention. Some states and localities, most particularly the States of New York and Massachusetts and the City of New York, levy a franchise tax on mutual savings banks. The tax is based on the volume of deposits without regard to whether a bank is making or losing money. The result is that if you were to enact this bill a large percentage of the assistance payments would flow directly through the troubled institutions to the local governments imposing this unjust and burdensome tax. We believe this is undesirable and that you should include in the legislation a proviso which would require that any state or local government with such a tax would have to waive it for institutions being assisted under the Act until repayment is effected.

Mr. Chairman, we understand that it is the Subcommittee's intention to make major modifications to H. R. 5568. For this reason we have confined our comments to the general principles we feel should be considered in your ultimate package. I would be happy to answer any questions and our staff is available to render whatever technical assistance you may desire.

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Chairman GONZALEZ. Thank you very much, Mr. Isaac. I think you have some very positive points on some of the technical aspects. Your page 4 statement and your footnote, I think, is very significant, but your expression of concern about the 50-percent requirement—actually we had witnesses last week in which they felt that the requirement was very weak, which it really is.

The dilemma that I think we face is that to the extent that the thrifts leave housing, the problems of housing, of course, magnify and increase the broadened powers, the medicine that you refer to on page 4. It may mean some strength for one, but I think it means kind of a poison for the other—what I have always called the liberty of the pike, meaning the death of the minnow. That is the dilemma that confronts us.

I am very concerned for the opposite reason, that something far more definite by way of tie-in is not raising any obstructionist noises because I realize that the chairman here has given a lot of thought and has evaluated from the standpoint of that which is possible and feasible and he certainly has a lot more experience here.

On the other hand, reality tells me that all of this is really, as I said earlier, sort of a vain and futile exercise until we are really willing to confront the emergency and really take emergency actions and really bite the bullet, as they say.

Now, of course, what I wanted to hear last year and the year before, and that is until interest rates fall—last year the big thing was inflation and now it is interest rates, but everybody has accepted interest rates as an act of God and continues to do so in and out of the Congress, in and out of the Presidency, in and out of the very forces that control it.

They want to say yes, our policies can determine interest rates. On the other hand, no, unless inflation, unless the deficit—and the real truth is that power will never yield except on demand, and this tremendous power that has been usurped, in my interpretation, by the likes of the Federal Reserve, with Congress abdication. Until that is addressed frankly, I think that we are just going to keep on going because this insatiable beast is not going to voluntarily relinquish this power.

Our history, we live it through repetition, beginning with the experience with the First and Second National Bank, the experience after the 1865 Currency Act and the creation of a so-called national banking system, the depression after that in 1873, the catastrophe in 1907 which led to the Federal Reserve Act of 1913 which did not come until after the House of Representatives created the Pujean Committee after the event.

It seems to me that we are now irreversably headed to catastrope. I do not see anything rising to confront the dimensions of the solution that are needed.

These witnesses that we had last week are absolutely correct, in my view. If this kind of emergency type bill can even have this kind of modicum or minimal effect, I just do not see any hope except plunging over the precipice and then hoping to have somebody throw a rope out. By that time, of course, you are in the hole.

When I see an overhang of $71 billion in your secondary mortgage institutions and with about some 80 percent of their debt

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being held by savings and loans and banks, and nothing being done, it seems to me that this very modicum 50 percent proviso should be acceptable.

Do you feel that it is destructive of any good if it continues in this bill?

Mr. ISAAC. The requirement may be moot in the sense that it requires net new deposits—50 percent of net new deposits—be placed in long-term low rate mortgages. If the DIDC continues to drag its feet on a short-term instrument, there may not be any new net deposits. But assuming that there are net new deposits, there are two basic problems with the requirement.

One is that the funds are required to be loaned at 1 percent over the "average cost". In order to get net new deposits they are going to be brought in, undoubtedly, at higher than the average cost of funds. The average cost of funds at a mutual savings bank in New York City at this point is somewhere in the neighborhood of 10½ to 11 percent. That is the average cost of funds.

But to attract new deposits you are talking about higher than that. It would probably be somewhere in the vicinity of 200 basis points higher at this time, so that means that they are going to lose money. They are required to put the funds out at 100 basis points over the average cost, and the marginal cost—the cost of the new money coming in—is going to be 200 basis points or so over average cost.

Second, the requirement prevents the thrifts from diversifying their net portfolios. They have most of their funds invested in long-term, fixed-rate assets tied to real estate, and we are asking them here to put more money in those same kinds of assets.

I do not have any genuine concern about who is going to supply money to the housing market in the event that we move away from the system of mandatory specialization. The marketplace will supply all the funds that are needed for housing at market rates. If we can get the economy under control, if we can get interest rates down, the market price will be affordable.

If we can't get rates down to the point where we think they ought to be and we want to subsidize housing, we ought to do that directly out of general revenues—subsidize lenders to make loans at below market rates, or subsidize buyers so they can afford the market rate. The crisis in the thrift industry today clearly indicates that we cannot afford to call upon private financial institutions to subsidize housing. They cannot do it.

The thrift industry has been crippled by the demands that have been placed on it and this cannot continue.

Chairman GONZALEZ. Well, on the other hand, to say that there will be something forthcoming to provide better allocation for housing without a commitment—a national commitment—goes contrary to the written record of every single country in the world. I mean, this has been the special mission of the S. & L.'s.

Mr. ISAAC. Excuse me, Mr. Chairman. I was not referring to credit allocation. I am saying that whatever demands there are for housing credit will be supplied by the private market upon the market's terms.

If we want to subsidize housing beyond that—that is, allocate additional credit to housing—then I think we ought to be talking

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about a subsidy out of general revenues. We ought not to be asking thrift institutions to provide the subsidy from their capital accounts.

Mr. ST GERMAIN. Mr. Isaac, I have got to interject here. Do you contend that we have not been in a cute manner perhaps, using semantics, allocating credit to housing to these many, many, many years in this country?

Mr. ISAAC. Yes, we have.

Mr. ST GERMAIN. Thank you.

Chairman GONZALEZ. I think my time is about up. Let me say I will follow through by submitting a follow-through question. There is one thing that I would like to ask because I think you are going around here in a sort of a vicious circle, and the Congress has aided in that. The S. & L.'s have been so restructured that, like credit unions—and we are not hearing much about credit unions and banks. We are hearing about the emergencies of savings institutions.

Let me assure you that there is a critical area there that I think will soon burst to the surface in both areas—credit unions as well as banks, small banks.

Now as I have seen, and with abettance of the Congress and because some people call it greed—I call it contention in the marketplace—S. & L.'s did not mind, as long as they thought they were getting a power that would make them more like banks, which can do more than credit unions.

Shucks, credit unions own banks today. But when you do that you are taking them out of the traditional channel. What is the history of credit unions? What is the history of savings and loans? And we have done this. So that now the only thing that is being shouted for is a lifeline to preserve them right now, but not if they are preserved to go back to their original purpose.

In the case of savings and loans, to provide the mechanism and the resources to fire the engines and the purchases of homes and mortgages. In the case of credit unions, the 1-percent interest, that was the thing when credit unions were founded and what was the purpose and how did they start? What are they today?

And, of course, as inevitably is the case, the old Aesop's fable of the clay jar trying to bump against the iron jars floating in the stream and it is going to break. They cannot compete.

You cannot put Mohammad Ali in the ring with a flyweight and expect the flyweight to win, and this is what I think is happening and we are acting as if it is not. For instance, even now your institution has diverted a tremendous amount—and I do not know how much and it would not hurt anything to have it in the record; I would like to have it—in order to bring about a sort of an emergency savings through mergers.

Now what is the limit of your resources? The reason I ask that is that there is a lot of consternation about it and as long as there is this consternation and this murmuring under the surface so when we go through the motions here of a resolution, as we did recently, saying we want everybody to know that we the Congress proclaim that we have full faith in credit and everything is going to be all right, don't worry.

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And of course what it does is bring a negative psychology where people really begin to worry because they will say well, why are you saying this. You are not doing anything about it in the resolution. Why are you saying that? And it is the same thing here.

How much longer can the institution continue its merger hilt at the rate that it has just in the last 16 months?

Mr. ISAAC. I would be happy to address that and I think that should be part of this record. The FDIC during the past 6 months has engaged in seven assisted mergers of mutual savings banks. They were all large institutions.

Two were acquired by commercial banks and the other five were acquired by other savings banks. The estimated cost of those transactions to the FDIC in total has been $983 million. That cost is spread out over a substantial period of years and will vary substantially, depending on what happens to interest rates. If interest rates come down it will be much lower than that and we would hope——

Mr. ST GERMAIN. Supposing they go up?

Mr. ISAAC. If they go up, the cost will be higher than that. We would hope and expect that the cost will be less.

Mr. ST GERMAIN. Does the projection to arrive at that $980-some-odd million cost—does it anticipate a decrease in interest rates or a constant rate?

Mr. ISAAC. The projections assume that rates will never come down. They will stay where they are.

We estimate the cost of the income maintenance agreements we have been entering into over the life of the agreements, assuming that rates never come down, and then we take the present value of that cost and we charge our fund for the entire amount immediately. So it is a very conservative accounting treatment.

Mr. ST GERMAIN. I am wondering—may I interrupt, Mr. Chairman?

Chairman GONZALEZ. Certainly.

Mr. ST GERMAIN. Did Chairman Pratt leave one of his excellent staffers here?

All right. I will propound a question to Mr. Pratt and I do not want to have to go through the written thing because we accommodated him, so I would like you to make sure that he gives us an answer to the question that was just propounded to Chairman Isaac, to wit: I think that there were 28 mergers last year by the FSLIC and that it was at a cost of approximately $1 billion.

I want to know how they arrived at their cost, whether they projected in the same manner, what FSLIC has projected in the same manner as has FDIC, to wit, the worst possible scenario, which is a constant interest rate. So I would like him to answer the question in the same manner as Mr. Isaac has answered it.

I think that is most important, particularly when one looks at the difference in what is contained with respect to funds.

Thank you, Mr. Chairman.

Mr. ISAAC. If I might go on——

Chairman GONZALEZ. Yes, sir, because the second half of my question was how long can we continue to do this?

Mr. ISAAC. Right. The FDIC has—something else that is unique about its system—that is, our assessment system. Each year we are

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required by law to give back to the banks 60 percent of their premiums after we deduct our expenses and losses for the year.

As a result, the assessment credit is reduced when we have losses and 60 percent of the losses are covered immediately by increased premiums against our banks. Thus, while we spent an estimated $983 million in handling the seven mergers, we recaptured over $500 million of that immediately from the 15,000 insured banks around the country, so that the net out-of-pocket cost to the FDIC on those seven mergers was about $400 million.

Last year we spent $747 million on three savings bank mergers. Over the nearly 50-year history of the FDIC, prior to last year, we had spent a total of $300 million handling all bank failures. So we spent in 2 months 2½ times as much as we had spent in nearly 50 years. Despite that, the FDIC added $1.3 billion to its insurance fund last year after absorbing the full impact of the estimated cost of those mergers. Our fund is now $12.3 billion and growing. It will continue to grow this year. It will continue to grow next year. It will continue to grow the year after.

Despite the problems we are facing in the mutual savings bank industry, even if interest rates do not come down, our fund can go on with mergers day after day after day. There is no threat to this fund from these mergers.

Chairman GONZALEZ. Except for the fact that in doing that you are in effect putting into concrete the gigantism for S. & L.'s that now are interstate affairs and therefore would tend to ignore local situations and needs, and therefore making it almost irreversible to resume the traditional S. & L. role or its historical role.

I think that disturbs me more than anything else.

Mr. ISAAC. We have not done any interstate mergers yet. We have tried, but have not effectuated any because where we have had the option of going out of State, the in-State bidders have always bid aggressively enough to win the bidding.

We do think that having the option of going interstate is highly desirable. It has saved a substantial amount of money for the FDIC where it has been available.

For example, in Minnesota, the State legislature in 4 days, by unanimous vote, passed emergency legislation allowing us to convert a $1 billion mutual savings bank into a full service commercial bank and to offer it for sale across State lines to out-of-State bank-holding companies. As a result of that legislation, the FDIC saved approximately $60 million.

We finally did the transaction at an estimated cost to us of $95 million. Prior to the passage of the legislation we were stuck somewhere up in the $155 million range.

Mr. ST GERMAIN. What was the size of that institution?

Mr. ISAAC. The failing institution in Minnesota was $1 billion in size.

Out in the State of Washington, we recently handled a merger at a cost of $47 million. But before we sought interstate proposals on that transaction our cost would have been $70 million. We think the interstate option is a good one to have and that is one reason why we like the regulators' bill.

As far as the effect of these mergers in terms of loss of local control, that has not really happened because we have not sold the in-

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stitutions outside of the local territory. I think the mergers we have done so far have been rather efficient mergers.

There is a lot to be said for a merger as opposed to capital infusion. Capital infusion preserves weak management, whereas a merger strengthens management. It is very, very difficult to attract quality people to an institution that has been propped up by the government and is existing solely by virture of a subsidy.

It has been our experience that one of the big flaws in a capital infusion plan is the difficulty in keeping good people in the bank or getting good new people to come.

Second, a merger enables you to achieve some operating efficiencies. You may have an ability to close down some duplicate branch offices. You may be able to get rid of an extra data processing facility. You may be able to eliminate some executive jobs.

When you do a capital infusion, as we said in our testimony, we think that the only appropriate way to do that—when you are putting public funds in an institution—is to take some control over it, to have some control over the management, to have some control over the practices and the operating procedures of the institution.

We are troubled by that. We think you have to have that control if you are going to hand out taxpayer money or FDIC money. But, at the same time, we do not like having that kind of control vested in a Government agency.

We would much rather do a merger and let the acquirer run the operation as it sees fit without our control and only exercise our authority if there is something very abusive or terribly out of line going on in the bank.

You can do that with a merger because you are not just handing out a subsidy. You have an institution that has good management in it and can run itself.

Mr. ST GERMAIN. But aren't you injecting funds in a merger? You have to.

Mr. ISAAC. Yes, we are.

Mr. ST GERMAIN. That being the case, can you differentiate between capital infusion by means of a certificate and direct use of FDIC funds?

Mr. ISAAC. Yes. I can distinguish that, Mr. Chairman.

Mr. ST GERMAIN. Money is money, right?

Mr. ISAAC. When we do a merger, we put funds in to compensate the acquiring institution, not to provide it a subsidy. The funds compensate the acquiring institution for the losses that we are asking them to take over in the merger. They are doing us a service. A deposit payoff of the seven savings banks would have cost us $2.2 billion instead of the $983 million that the mergers cost us.

Mr. ST GERMAIN. Let me ask you a question there, if I may. When you talk about that cost, is that the cost to pay off the depositors up to $100,000, period?

Mr. ISAAC. That is correct.

Mr. ST GERMAIN. Because you know in mergers over a long period of time, and the insuring agencies have gone beyond the real mandate in utilizing the merger process and protecting a great many parties other than the depositors. Are you getting my question?

Mr. ISAAC. Yes.

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Mr. ST GERMAIN. Now I will iterate my question. When you talk about the costs, the potential costs, are you talking about the potential costs of the payoff of the depositors up to $100,000 per account or are you talking about those other costs?

Mr. ISAAC. No, the $2.2 billion would have been the cost of paying off the depositors up to the insurance limit.

If I could go back to the merger topic, as I said, we are trying to compensate the acquiring institution for taking over our losses and so it is not a subsidy. The acquiring institution is a sound, well-managed institution so there is no need for the operating controls on it that you would have to place on an institution that you propped up.

Mr. ST GERMAIN [PRESIDING]. I am sorry Chairman Gonzalez had to leave, because I am not sure whether I wanted to ask you questions or ask him questions.

Among other things, I wanted to observe to him that indeed credit unions and small commercial banks are included in the legislation that I have introduced. I would say to my two colleagues who are here, we can go back and forth here, so interrupt any time you would like. I would like to get sort of a trend going.

Is that all right with you, Steny?

Mr. HOYER. Yes.

Mr. ST GERMAIN. No. 1, in your colloquy with Chairman Gonzalez you stated that the marketplace will provide the financing and that we should not be too concerned about insuring that the thrift industry continues to be the deliverer of these funds for mortgage financing. Do you refer to the secondary market in this sense? Is that what you primarily have in mind?

Mr. ISAAC. I believe that commercial banks and savings and loan associations even with their broader asset powers will supply mortgage credit upon terms that the market will dictate. If they do not, then Merrill, Lynch or Prudential or somebody else will.

I was not arguing that there should not be a subsidy for housing.

Mr. ST GERMAIN. Mr. Isaac, I tell you, one of the big problems with the additional powers of thrifts, among many, is the fact that when you listen to the realtors and the homebuilders sitting in the seats down there and if you look at their testimony and their pronouncements they are very concerned about additional powers for thrifts lest they not have a source of mortgage financing and mortgage financing is the lifeblood of those two industries.

So maybe sometime you ought to address them and tell them where they are going to get their money from, and that might help the legislation, that we give additional powers to thrifts.

Mr. ISAAC. Mr. Chairman, all I am saying is that if it makes economic sense to make a housing loan, then a thrift or commercial bank or Merrill, Lynch or American Express or Sears or somebody will provide the money to make that loan.

Mr. ST GERMAIN. I do not mean to debate it with you, Mr. Isaac. What I say is why don't you go talk to them and explain that to them?

Mr. ISAAC. If it does not make economic sense to make that loan, I do not want our financial institutions making those loans without some kind of subsidy.

Mr. ST GERMAIN. Right.

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Mr. Isaac, and again to Mr. Pratt, the same question. We are going to introduce new legislation substituting a net worth guarantee certificate for the actual cash. Now, under the original legislation the institutions which would receive cash would have paid interest at the prevailing rate that the Treasury pays.

And then we said gee whiz, well, they are not really going to get any money, one argument would be well, if I charge them any interest, because they are not getting actual cash, there is no cost to the Treasury until such time as that were to occur, which is academic because the only time it would ever cost the Treasury would be if the institution fails, so maybe that makes it a little easier for the institution to right itself.

However, in view of both what both you and Mr. Pratt have said, do you think it would be wise to have a fee, as we had in other assistance legislation, which fee would then provide an incentive for them to work their way out that much more expeditiously? That there be a fee attached for net worth guarantee certificates?

If you are not prepared to answer it now, would you include that with your recommendations?

Mr. ISAAC. Let me just talk generally, conceptually, about the program and mention something that we have thought about doing at times in the past ourselves. As you know, a year or so ago we asked for 13(c) of our act to be amended to give us a greater flexibility to provide capital infusion. What we had in mind there——

Mr. ST GERMAIN. If you would explain that for the members, I think what you are referring to is that you would not have to make a finding that it is essential to the welfare of the community.

Mr. ISAAC. Yes, "essentiality."

Mr. ST GERMAIN. Right now, you are precluded from assisting unless you can make that finding.

Mr. ISAAC. Correct, and that is a very difficult finding to make in markets like New York. What we had in mind was establishing some objective criteria for when an institution would become eligible. For example, there would be a net worth test.

Net worth would have to fall down below a certain amount before the bank would be eligible to be considered. We would be willing to provide a capital infusion up to a certain maximum amount of assets. And we would probably do it through the exchange of paper. The institution would issue us a non-interest-bearing, subordinated note, and we would acquire that in exchange for our note bearing market rate of interest.

So that on the one hand, the institution would be issuing a note with a zero rate of interest; on the other hand, we would be paying to that institution a market rate of interest on our note. The interest rate difference would be a subsidy that would help to turn the institution around and prevent us from having to do a merger.

Let us just say that the maximum we were willing to commit to any one institution was an amount equal to 5 percent of its assets. That means that if the market rate is somewhere in the vicinity of 15 percent, we would be providing 75 basis points per year earnings subsidy. If the institution were losing more than 75 basis points per year, you would not enter into this program with it because the bank is not going to make it; it is not going to continue to lose money.

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The seven institutions we have merged out so far had been losing substantially more than 75 basis points, so we would have merged them out even if we had had such a program. But the ones that are losing a much smaller amount—and you can play with these numbers and set them wherever you wish—could be aided with this. Under this kind of program you would not have to get into a lot of the administrative detail that Mr. Pratt was worried about in terms of trying to control the subsidy for operating costs, etc.

What I would say is let us set a maximum amount of subsidy that we are willing to give one of these institutions and either it makes it or it does not. Then they have got every incentive in the world to reduce costs because the more they reduce costs, the more they are going to earn. It places the full burden of that on them.

Mr. ST GERMAIN. Well, didn't they have the same incentive prior to, to reduce costs—if not to earn more, to lose less?

Mr. ISAAC. Right now? Sure. Without assistance they have that incentive, and under an assistance program along the lines I just described they would have the same incentive, because there would be a 75-basis points subsidy coming in, and they could still have every incentive to make all the money they could make on top of that.

Mr. ST GERMAIN. A few more questions. You brought up in your testimony and pointed to the problem of franchise tax in certain States. In looking at the legislation and trying to tailor it, it is rather difficult to meet some of the unique situations that prevail in various states and various jurisdictions. Also, there are some SEC rules and regulations to contend with.

Under the circumstances, one way would be to say to you and Mr. Pratt could you provide and tell us what specific laws present problems in terms of capital infusion or network guarantees and suggest how we might best handle the conflicts. But my thought is perhaps the only way to do this, rather than trying to find each and every, and probably miss a few, would be to provide an override preemption for those institutions that are assisted by this legislation.

Would you address yourself to that in making your recommendations, as well, because that is one of the tacky problems that has been bothering us. I think you perhaps answered a good bit of this. I do not know if you have any further thoughts.

FSLIC, as you know, has used what is known as the paper-capital approach and is using it. Do you have reservations—I understand you have got serious reservations about it and you have not used this. Does this go beyond the thought that you expressed, that it does not do much for management—incentives, et cetera? You have other reservations about it? The capital infusions?

Mr. ISAAC. I think the reservations that we have about capital infusions are the ones we stated. I would state it this way. Where you can do a merger at a reasonable cost—a cost approximating the cost of capital infusions—you ought to do the merger. Where you cannot do the merger—either because you have too many institutions coming at you and not enough buyers or because the price of the merger is way too high compared to the cost of capital infusion—then you have got to consider the capital infusion.

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But in situations where you have an adequate number of strong buyers, which we have had to date, and where you can effectuate the mergers at a reasonable cost in relationship to the price of capital infusion, I would prefer to do a merger. I think it will be a stronger institution that is of much more value to its community.

Mr. ST GERMAIN. Previous assistance legislation that we adopted ordinarily has had or required GAO audits of the entities that have been assisted. When you look at the numbers, perhaps not within your jurisdiction but that of Chairman Pratt—and again, I address this to Chairman Pratt as well—it would seem as though GAO audits of the assistees would probably be a monumental task.

However, I would like your reaction to a GAO audit of the assistance program itself. Would you have any objections to that?

Mr. ISAAC. A GAO audit of the assistance program? Offhand, I do not know. I guess I assumed that would come with it. [Laughter.]

Mr. ST GERMAIN. You have answered the question. One last question. You have made your case as far as the philosophy that mergers are preferable to capital infusion. You have been able to effectuate mergers to date. In Minnesota you had the cooperation of the state legislature.

But it has been my feeling, at least in the case of the S. & L.'s—and I do not know and that is why I woould like to ask you this question—that as far as mergers are concerned, we are going to reach a saturation point with just so many institutions out there that want to acquire ailing institutions, whether it be one-on-one, mutual-to-mutual, or commercial and mutual. Let us face it, once Chase Manhattan purchases a savings bank, how many more do they need. And let's say you were to go interstate. Bank America came in and bought an savings bank in New York. They buy one and that is it.

Have you done an analysis there as to how many potential brides you have out there that are ready, willing and able?

Mr. ISAAC. I think you may reach the saturation point. I don't think we are in any danger of reaching it anytime soon. The situation on the S. & L. industry is entirely different, though, because you have many more institutions you are talking about. There are 5,000 or so savings and loan associations; there are roughly 370 mutual savings banks.

Mr. ST GERMAIN. By the way, remember what I said. Don't you have some commercials out there that have got 20 percent or better invested in home mortgage lending, some of them very high home mortgage lending?

Mr. ISAAC. Yes.

Mr. ST GERMAIN. Do you have any of the small banks like the country banks that might well be in need of assistance in the near future because of their large mortgage portfolios?

Mr. ISAAC. We have nothing unusual occurring in the commercial banking sector at the moment.

Mr. ST GERMAIN. No potentials?

Mr. ISAAC. There are always potential failures in the commercial banking industry, but nothing unusual.

Mr. ST GERMAIN. I mean failures due to the fact that they have a large portfolio of low-yielding mortgages.

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Mr. ISAAC. No potential failures on account of that that I am aware of.

Mr. ST GERMAIN. None approaching it, more so than 3 or 4 years ago before this long period of high interest rates?

Mr. ISAAC. I am sure that this period has caused some problems for some commercial banks.

Mr. ST GERMAIN. That is why we included them in the legislation.

Mr. ISAAC. I am sure that it has caused some problems for commercial banks, but if so they are fairly isolated problems. We do not have a systemic problem in the commercial banking sector right now.

Mr. HOYER. I don't have a question about the specific legislation, but about the analysis. I have been reading Mr. Pratt's testimony, which I am sure you have heard. But in regard to how interest rates apply to failures and what that will ultimately cost, we hear a lot of talk about the deficit relationship to interest rates.

Have your people made an assumption that projects how deficit rates affect interest rates? In other words, let us say by some stroke of political genius both the White House and the Congress could agree on a program that would bring the deficit down to, say, $50 billion for fiscal year 1983, and to a point lower than that in fiscal year 1984. What effect would that have on interest rates in terms of basis points, which I really do not understand other than 1 equals 100?

How many points would that make? It is obviously very important. There are obviously tradeoffs in trying to get the deficit down. If we traded off and got down to $50 billion, how much does that get us in terms of an interest rate reduction?

Mr. ISAAC. I would just say generally we are not trying to engage in the business of forecasting rates. That is why we, in making our assumptions about the costs of these transactions, simply assume a constant rate. There is really no basis upon which to say, well, the rate is going to go up or the rate is going to go down. You just take what you have got at the moment and project it out. That is probably as good a guess as anybody could come up with.

I think that our experts feel that if we could get the budget deficit down, it would be quite helpful in terms of bringing interest rates down. But interest rates are up right now, primarily due to concerns about that deficit. If we could pare it away and give the market some confidence, the rates might go down fairly significantly.

Mr. HOYER. What do you mean by fairly significantly?

Mr. ISAAC. It is hard to say, but real rates are very, very high right now, and it seems that one of the major causes of that is the concern people have about the deficits and the possibility that we are going to have a rekindling of inflation.

Mr. HOYER. OK. Who would be the proper person to ask that question?

Mr. ISAAC. Chairman Volcker or Secretary Regan. I am sure they would be able to voice some opinions about what would happen to rates if certain things happened to the deficit.

Mr. HOYER. Thank you.

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Mr. SCHUMER [presiding]. Mr. Hoyer, are you through with your questions? Thank you. Mr. Wylie—our distinguished ranking minority member of this subcommittee. No he is not. It is the other subcommittee.

Mr. WYLIE. Second-ranking minority member.

Mr. SCHUMER. Second on this; first on——

Mr. WYLIE. The banking minority member had to go to Ohio, so maybe I am the ranking member now.

Be that as it may, thank you very much, Mr. Isaac, for your testimony. The industry said in testifying last Thursday, the FSLIC and FDIC's primary orientation is protection of depositors and not preservation of institutions. He went on to recommend that the regulators be relieved of such subjective eligibility judgments as a determination of reasonable prospects for long-time viability. Has somebody else laid this on you?

Mr. ISAAC. I hear that on occasion.

Mr. WYLIE. You have heard it before? On the ground that the capricious turns of the interest rate cycles and the haphazard diseases of the DIDC assessments make it very difficult if not impossible. You say on page 3 of your testimony that our first tenent is that the assistance would be available only on a selective basis. Inept management should not be subsidized with funds intended to provide temporary relief for unexpected and unprecedented economic conditions.

So what you are saying, in effect, is make them merge if it looks like they cannot make it. Make them merge.

Mr. ISAAC. Yes.

Mr. WYLIE. Which, of course, would reduce the number of institutions.

In the short term, do you think that there might be some psychologically bad impact to requiring a lot of S. & L.'s to merge in that people and the public do not distinguish necessarily between banks and savings and loans? And if it looks as if there are a lot of S. & L.'s on the verge of merger or failure, that the public might get the idea that we are in serious difficulty vis-a-vis the savings institution?

Mr. ISAAC. I think there is increasing public concern about this. The media has paid more and more attention. The cover of one our major news magazines a week or so ago had a feature on this. I think there is some danger with respect to the public psychology.

I agree with the characterization of the industry spokesman who said that we are concerned with protecting depositors and not depository institutions as such. That is our statutory mission: to protect insured deposits, not to protect individual institutions. I would hope our statutory mission would never be changed.

I believe in the marketplace. What we need to do is make sure that when institutions run into difficulties, we bring stability to the system by handling the failures in the proper way. In many cases, that will be merger. If it gets to be too many—if you do not have enough good sound buyers and you cannot handle the merger at reasonable costs—then capital infusion may be appropriate. But the object should not be to preserve individual institutions from failure, but to bring stability to the system.

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Mr. WYLIE. I would agree with that long term. But I am concerned, as you may have heard my question to Mr. Pratt along those lines and I want to ask you about, the action of the DIDC yesterday. Do you think that helps S. & L.'s in the short term?

Mr. ISAAC. I think the action of the DIDC was a mistake, and I voted against it.

Mr. WYLIE. Are you the only one that voted against it?

Mr. ISAAC. Yes. It was 4 to 1. I thought it was a mistake for several reasons. One, I think it is philosophically wrong for the committee, which has been charged with deregulating interest rates, to come up with an instrument that has a differential on it that is trying to direct funds flows. The direction we got from Congress was to get out of that business. We came up with a new instrument that got us back into it.

Second, I think that the instrument will hurt mutual savings banks, particularly in New York City, which have a substantial portion of their money still in passbook accounts. Over 30 percent of their deposits are in passbook accounts—and 50 percent of those passbook funds, by dollar amount, are in accounts with a balance of $10,000 or more. I believe you will see some transfers from those passbook funds over to this higher cost, 3-month instrument and that will hurt the savings banks.

I disagree with Mr. Pratt. He thinks it will bring in substantial new money. I do not think that the instrument will bring in a substantial amount of new money. If I believed that, I might have voted for it.

I believe it will not be competitive with the money market funds and, basically, what you will see is a transfer from passbook accounts and from 6-month CD's into this one. You will also see some transfers from commercial banks over to thrifts.

I disagree with that. I do not think we ought to be taking the deposit customers of commercial banks and trying to shift them over to thrifts to help solve this problem. The problem is not deposit outflows from thrifts to commercial banks. That has not been happening to any degree. The commercial banks have also been experiencing sluggish deposit growth.

The problem is that nearly $200 billion has flowed to money market funds. We are either going to have to start regulating money market funds or we are going to have to deregulate the banks and thrifts so that they can attract this money.

That is what I was arguing in the meeting the other day. I wanted to adopt an instrument that was much more market-oriented to attract new money into thrifts and banks alike, rather than simply dividing the shrinking pie in a different way.

Mr. WYLIE. Have you made a suggestion—and I probably should know this, but—have you made a suggestion as to whether we should deregulate regulated financial institutions, or regulate the deregulated financial institutions? I call money market funds a deregulated financial institution now, which they are. And I ask that question advisedly because I put in a bill which would provide for—St Germain says I cannot understand why you keep asking that question.

The problem is that I am again frustrated to know where in the devil to go with this thing, and I put it in a little, simple bill which

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would provide discretion of the Federal Reserve Board to impose reserves on transaction accounts, on the theory that if it looks like a transaction account, and waddles like a transaction account and quacks like a transaction account, it probably is a transaction account.

And if we say we ought to have reserve requirements on regulated financial institutions on those in order to get a handle on monetary policy and all that good stuff and provide stability in the economy, what is wrong with that?

Well, I will tell you one thing that is wrong. Within about a week after I put that bill in, somebody pushed the computer and I got 3,000 letters from people in my district that said they all had money market funds and they did not want me to stop them from getting money in a savings account for the first time in history. And Lord knows, I do not want to do that. Nobody else does.

[Laughter.]

Mr. WYLIE. But what in the devil is the answer to this? Have you staked out a position, or are you saying you have got to decide one way or the other still?

Mr. ST GERMAIN. Excuse me, I thought the name was Isaac. You are looking for Solomon.

Mr. WYLIE. Well, I am looking for Solomon. He may be Solomon, I don't know.

Mr. ISAAC. I don't have an answer for your political problem. My preference would be to see banks and thrifts deregulated rather than to see money market funds regulated.

Now, the reserve issue is a different question, though. It is not just a question of regulation; it is a question of do we need reserves on money market funds for monetary control purposes. If we do, then we ought to put them on. If we don't need reserves on money market funds for monetary control purposes, then we had better re-examine the question of whether we need them on banks.

Mr. WYLIE. Well, I agree with that, but that is a degree of regulation. I mean it is an added cost.

Mr. ISAAC. But I am saying that I would not be a proponent of reserves on money market funds simply because the banks are carrying some burden and we ought to equalize it. That would not be the reason I would advocate reserves on money market funds.

I believe it comes down to a question of whether you need them for monetary control purposes. If you do, then we ought to put them on. If we do not, then I would go back and ask whether we really need them on banks. And if we do not, then we ought to get rid of them on banks.

Mr. WYLIE. Well, that is a 6-months debate. We went through that when we passed the bill.

But I am thinking that we do need to do something for the thrifts on a short-term basis. I do not think that we can just allow wholesale mergers or wholesale failures. And I think when you talk about mergers and these other suggestions that you have made this morning as to what we should do for the S. & L.'s, then that is fine if the economy is healthy and interest rates are down where they should be, and then we can do it in kind of an orderly fashion.

But we are not in an orderly fashion atmosphere right now.

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Mr. ISAAC. Let me add something to that. I think when you start talking about temporary measures to carry us through a period, that may be another subject altogether. I mean, you can argue that we ought to deregulate but nevertheless impose some kind of a temporary regulation in order to get us there. In fact, DIDC did that on Monday. It imposed a regulation which is intended to transfer money from banks to thrifts.

If you could swallow that action, certainly you could swallow a measure which would intentionally channel money from money market funds to regulated depository institutions. I believe it would be substantially more equitable than what occurred on Monday.

Mr. WYLIE. How do we do it? I am ready. How do we do it?

Mr. ISAAC. I guess you have got to figure out a way to turn that computer off. [Laughter.]

Mr. WYLIE. Thank you very much, Mr. Chairman. I think I will leave that well enough alone.

Mr. ST GERMAIN. Mr. Schumer?

Mr. SCHUMER. Thank you, Mr. Chairman. I had a couple of factual questions but before I ask them, I would just like to explore a few underlying axioms governing your prognostications for the immediate solution to the problem that faces us in the next several months.

Would it be false to say that your view is that eventually the financial institutions of this country, or the financial markets of this country, would be a lot better off, or no worse off at the very least, if there were just one type of bank that could do everything, and no distinctions between thrifts and commercial banks? Would that be accurate?

Mr. ISAAC. That is accurate, except that I would expect some of them to specialize in areas of their own choice.

Mr. SCHUMER. That is right, specialization by the market. Well, that was easy.

Let me get into some specific questions then because it really seems to me that by providing new asset powers for the thrift institutions at this point, we will certainly help some of the thrifts that are currently healthy, but in all likelihood, we will probably harm some of the thrifts that are in the most desperate situation.

I know that you were the one "No" vote at the DIDC on Monday.

Mr. ISAAC. Yes.

Mr. SCHUMER. It seems to me that this will hurt many of the thrifts in New York because of the money that will go into this new instrument, more of it will come from the 5½-percent savings accounts than will come from outside, like the money that went into all-savers certificates.

The evidence seems to back that assertion up, so I would like to know how your proposal to provide new asset powers for thrifts squares with this dilemma we have, which is dealing with this immediate problem. Is it intended to accelerate the need for mergers?

Mr. ISAAC. No. I think that if we could give the thrifts broader asset powers it would help in the longer run to make the survivors much more viable institutions. It would also help in the short run to facilitate our merger activities.

Mr. SCHUMER. OK, that is the point I wanted.

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Mr. ISAAC. It could make the franchise more attractive to the institution that acquires it. So in the short run, it could save the insurance agencies a substantial amount of money. In the long run, it would be a great benefit to the surviving thrift institutions by enabling them to diversify and become more viable financial intermediaries.

Mr. SCHUMER. But in the short run it also might put those troubled thrifts in a worse position than they would be otherwise.

Mr. ISAAC. I don't think it will have a significant effect in that regard. I don't think it will exacerbate that problem.

Mr. SCHUMER. Next question. You have been stating that the merger route seems to proceed pretty easily. I would just like to explore that with a few specific questions.

First, you made a statement that in-State bidders have outbid out-of-State bidders. In other words, what you are saying to me is that in the New York Bank for Savings situation, the Buffalo Savings Bank—is that the institution that is acquiring it?

Mr. ISAAC. There is a Buffalo Savings Bank.

Mr. SCHUMER. Is that the bank that the New York Times reported will take over the New York Bank for Savings? That is the one I am talking about. Did it bid more than a Chase Manhattan, or Security Pacific?

Mr. ISAAC. We do not acknowledge that there is anything going on in that area. The New York Times wrote about it, but that was not through anything——

Mr. SCHUMER. OK, well, let us talk generically. Why in the hell would an in-State thrift institution bid more than an out-of-State commercial institution for an ailing thrift?

Mr. ISAAC. Well, we have a unique problem in New York, as a matter of fact, which is another important reason for the regulators' bill. The New York Constitutional is such that it is virtually impossible for us to convert a mutual savings bank in New York into stock form of ownership.

Mr. SCHUMER. You would be interested to know that when I was in the legislature I introduced legislation that would allow these conversions.

Mr. ISAAC. Is that right?

Mr. SCHUMER. Oh, it took off. It was a very popular piece of legislation.

Mr. ISAAC. I can imagine. But in New York it is very, very difficult to get a mutual savings bank into stock form of ownership. If you cannot get it into stock form of ownership, you cannot sell it out of State. So we really have been extremely handicapped in New York in trying to deal with out-of-State firms.

And there are certain elements in the State that would prefer that we not do so anyway. And so,—

Mr. SCHUMER. Elements, you mean people? Superintendents?

Mr. ISAAC. Various people. We have not had an opportunity to engage in a true interstate bidding process in New York.

Mr. SCHUMER. Let us take in State. I guess you might have the same problem if an in-State commercial wanted to take over an in-State thrift. Chase Manhattan was widely rumored to be interested in entering the bidding, and then backed out. I don't know why. But does the same problem present itself there?

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Mr. ISAAC. No. We can deal with a commercial bank in New York and have had a lot of negotiations over the past 6 months or so with various firms in connection with some of the mergers we have handled.

Mr. SCHUMER. If it is so easy to do mergers, why is it taking so long to find a suitable mate, as the chairman ably put it—a bride, a bride with a large dowery I might add—for New York Bank for Savings. Why was there talk of splitting it up when we are supposed to benefit from all of these economies of scale?

Mr. ISAAC. I would rather not get focused on a single institution, particularly one that we will not acknowledge as having any difficulties.

Mr. SCHUMER. Be candid.

Mr. ISAAC. I would not want to characterize these mergers as easy. We have had our folks working night and day for 6 months. I cannot tell you how much effort goes into this and how dedicated and talented this FDIC staff is in putting these together. This is a very difficult period we are in.

We did one a couple of weekends ago in Spokane, Wash., where our people were up almost the entire weekend and finally consummated the transaction at 5 o'clock in the morning on Monday. It is not easy to do these transactions. They are time consuming, complex, difficult, and very trying. But we are doing them, and we are doing them quite successfully.

When it comes to why an individual institution is being handled the way it is, we have a lot of activity and we have to schedule the mergers as we believe appropriate.

Mr. SCHUMER. Let me ask you just one other question. I have many more and will submit the rest in writing. Is it your feeling that an in-State institution of the same type, an in-State thrift, with everything else being equal, will bid as high or higher than an out-of-State commercial institution for an ailing thrift?

Mr. ISAAC. We would clearly try to stay in-State, all things being equal. As far as staying within the industry, that would depend upon the nature of the problem. If you have a very large, complex problem and you do not have a strong thrift to handle the problem, it might be better even to sell it outside the industry, even if it meant spending a little bit more money. But that would very much depend on the nature of the problem and the bidders.

Mr. SCHUMER. Thank you, Mr. Chairman.

Mr. ST GERMAIN. Any further questions of Mr. Isaac? I have one more. Are you buying a car, getting a new car with a drydock? Necessity is the mother of invention.

We want to thank you for a very stimulating appearance, and also thank you for not placing a limitation on your time. And ahead of time, thank you for the assistance you will be rendering us as we attempt to further improve our legislation. And frankly, the sooner we can get your recommendations the better, because I happen to be one who feels that we do not want to delay this. We want to proceed. I think it is important that we proceed.

The powers are important, but I don't see them coming down the railroad track at this point in time, and therefore, let us do the feasible as soon as possible.

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Mr. ISAAC. Our people will be more than happy to work promptly with you on this. And I would like to thank you for inviting us here today and for the interest and concern you have shown for the problems in the thrift industry.

Mr. ST GERMAIN. Thank you, Mr. Chairman.

[The following letter to Chairman St Germain, dated May 10, 1982, from Chairman Pratt, contains responses to questions raised during the hearing. Also submitted is a memo from the Federal Home Loan Bank Board pertaining to calculating FSLIC assistance. Following this material is correspondence from the witnesses to questions submitted by the minority staff:]

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Federal Home Loan Bank Board

RICHARD T. PRATT
CHAIRMAN

1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

MAY 10 1982

Honorable Fernand J. St Germain
Chairman
Committee on Banking, Finance and
Urban Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

When I testified before your Committee on March 24 concerning capital assistance, you presented several questions that I agreed to respond to later in writing. These questions and the Bank Board's response are herewith enclosed. If I may be of any further assistance, please feel free to call.

Sincerely,

Richard T. Pratt

Enclosures

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Question 1:

It has been suggested that charging a fee of institutions that receive net worth assistance would provide an incentive for institutions to work their way out of financial difficulties more expeditiously. Please comment.

Answer:

It is absolutely clear that associations must not be given an incentive to seek capital assistance. Assistance plans must be carefully structured so as to prevent associations from engaging in behavior that would make them qualify for assistance when they do not need or deserve such assistance. For example, any assistance plan based solely on net worth is flawed because associations can sell loans, book the loss, and reduce their net worth to the qualifying level.

Two separate types of disincentives can be designed. In the capital assistance plan I have proposed, only a fraction of losses would be offset. If an association takes overt actions to qualify for assistance, it will be worse off. Alternatively, a note program can be structured such that the required yield on the income capital certificates purchased by the FSLIC always exceeds the interest rate on the notes given in return for the income capital certificates. A guaranteed negative spread for the association would deter it from engaging in actions that would qualify it for capital assistance.

Question 2:

Please provide a projection of the number of S&L merger partners available under alternative interest rate scenarios.

Answer:

It is difficult to project the number of merger partners available for a number of reasons. First, the number and difficulty in arranging mergers depends on whether the merger is interstate or intrastate. As a general rule, the Bank Board prefers intrastate mergers, but they could be significantly more costly to FSLIC in some cases than interstate mergers. Second, any merger must make economic sense to the acquiring association. Third, the number, type, and scope of mergers will depend on how many associations use purchase accounting. In several cases, the Bank Board has merged together several weak associations with minimal direct assistance because the merger used the purchase method of accounting rather than the more traditional pooling-of-interests method.

The attached tables show the percent of associations that have favorable net worth/assets ratios currently and the percentage of total industry deposits held by them. If the criteria of a healthy association is a three percent net worth ratio, then, at the current time, 74.6 percent of associations holding 69.1 percent of savings could be merger partners. If interest rates remain at their current levels for all of 1982, associations will, on average, experience a decline in their net worth ratios of about one percent. Without a decline in interest rates, therefore, these numbers would likely fall to 57.1 percent of all associations holding 47.0 percent of savings by early next year. A rise in interest rates would, of course, result in lower numbers, whereas a drop in rates would curtail the decline in the proportion of the industry that would be eligible merger partners.

The tables also indicate several additional facts about potential acquirers. First larger associations, in general, have lower net worth ratios, so it is more of a problem to find an acquirer for a large, than a small, institution. Second there is a great disparity among Federal Home Loan Bank districts in the proportion of associations healthy enough to acquire associations without significant assistance.

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Distribution of Deposits at Associations Classified by
Net Worth/Assets Ratio
February 1982

DISTRICT	3 Percent or Greater	4 Percent or Greater
Boston	69.4%	45.7%
New York	46.9	35.6
Pittsburgh	78.1	54.6
Atlanta	66.4	41.4
Cincinnati	78.9	53.1
Indianapolis	68.8	43.4
Chicago	50.7	43.4
Des Moines	76.9	47.3
Little Rock	61.3	40.0
Topeka	87.2	55.7
San Francisco	79.9	57.2
Seattle	77.1	45.4
All Districts	69.1	47.0

Distribution of Number of Associations by
Net Worth/Assets Ratio
February 1982

DISTRICT	3 Percent or Greater	4 Percent or Greater
Boston	78.5%	56.8%
New York	67.5	54.0
Pittsburgh	83.5	68.2
Atlanta	73.0	54.8
Cincinnati	83.7	62.2
Indianapolis	85.3	72.1
Chicago	67.7	55.7
Des Moines	72.2	52.2
Little Rock	63.6	45.9
Topeka	83.2	62.0
San Francisco	79.8	62.0
Seattle	83.6	60.4
All Districts	74.6	57.1

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Federal Home Loan Bank Board

Memo

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

INTER-OFFICE COMMUNICATION

FROM: Edward J. McGuirk, Chief
Quantitative Analysis Division

TO: Randall H. McFarlane
Legislative Counsel

DATE: April 6, 1982

SUBJECT: Calculating FSLIC Assistance

Attached is a copy of the financial analyses that FSLIC currently performs on each problem case. This methodology was adopted in January of 1982 and the interest rates used are derived from forecasts prepared by Data Resources Incorporated and our Office of Policy and Economic Research. Our major assumption is that under normal circumstances the cost of money of the institutions we are examining will decrease to 10 percent over the next 5 years. We perform our cost analyses accordingly.

By contrast, 1981 analyses were performed with opportunity cost and cost of money varying as to the yield curve on short and long-term investments. If for example, the long term rates were higher than short term rates, cost of money would rise over the life of the alternative we were examining. This, in fact, was a very conservative if not pessimistic view and prompted the change to the newer more objective approach.

If you have any questions, please call me at 377-6633.

Ed McGuirk

Edward J. McGuirk

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COST COMPARISON - PROBLEM CASE ANALYSES

1. Two scenarios for each problem case:

   a. Constant Case - no improvement in rate structure
   b. Normative Case - gradual economic improvement over time (5 years)

2. Analyses to be performed:

   a. Receivership - 1 year life (same for both scenarios)
   b. Proposed financial assistance (FAA) - life of deal
   c. Phoenix (viable institution) - The greater of life of each FAA proposal for cost comparison or 10 years
      1. with purchase accounting
      2. combined with n number of shops as requested in the FAA proposals

3. Method of analyses:

   a. Receivership - use receivership model - discount loans to current market rates. Use FSLIC current opportunity cost for discounting liquidating distributions The defaulting mortgages on the existing portfolio are assumed to be the delinquent loans on the latest monthly report. They are written down immediately. Model convention places them in REO. The existing REO and defaults are sold within the first year at a 25% loss. Assume all debt but uninsured savings senior to FSLIC position.
   b1. FAA constant case use FAA model for life of deal. Hold cost of money constant for spread purposes. Use 5 year bank rate when subsidizing advances. Sell 100 percent of REO original and defaulting) the first year. Assume REO has 0 yield and 25% loss. Assume no potential payback by survivor. Assume all charges through "special reserve" account unless otherwise directed. Use FSLIC current opportunity cost as a constant for discounting cash flows.
   b2. FAA norm case - Use FAA model for life of deal. Until further notice, decline cost of money straight line from first year association average cost of money to 10 percent by year 5 - hold constant thereafter. For advance subsidy, begin with 1 year bank rate and decline to 10 percent by year 5. Treat REO as above. If payback provision is part of deal, combine FAA with acquiring institution, test viability and compute estimated payback dollars based on forecast. Note, use purchase accounting where applicable. Reflect economies by using the operating expense ratio of the acquirer. Discount cash flows using a variable opportunity cost Until further notice, the opportunity cost stream should reflect FSLIC's current 1 year rate reduced straight line to 12 percent by year 5 and held constant thereafter.

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c1. Phoenix constant case - To make cost comparison with deals received, use viability model on the institution. The docket is to reflect purchase accounting of mortgage loans, GNMA's, and other loans based on current market rates. Also take known writedowns, net worth, and 25% of REO and defaulting mortgages into Goodwill to be amortized over 40 years. In publically traded associations the goodwill is amortized over 25 to 30 years. The valuat on account s amortized over 15 years on a level yield basis. Hold cost of money constant for comparative purposes. Assume all investment n liquidity yielding a net 2 percent above the marginal cost of funds. Note, model convention dictates that the gross spread be the 2 percent plus the operating ratio used. Unless otherwise advised, assume 0 savings growth for ife. Compute osses through simulation. With phoenix model, purchase ICC's in an amount sufficient to cover simulated losses. Net worth is to be maintained at 1% of liabilities. Pay /4 percent above FSLIC's opportunity cost for notes issued. Discount cash flows using FSLIC's opportunity cost as a constant for the l fe of the comparison. Assume no potential payback by survivor. Assume a cash redemption for notes in final year. Discount this flow at the relevent year rate.

c2. Phoenix merger norm case - To make cost comparison with deals received use viability model to project the operations of the institution. The docket is to reflect purchase accounting of mortgage loans, GNMA's, and other loans based on current market rates. A so take known writedowns, net worth and 25% of REO and defaulting mortgages into Goodwill to be amortized over 40 years. In publically traded associations the goodwill s amortized over 25 to 30 years. The valuation account is amortized over 15 years on a level yield basis. Decrease cost of money by adopting association cost of money year 1 and reducing to 10 percent by year 5. Hold cost of money at 10 percent for remaining life where applicable. Assume all investment in liquidity yielding net 2 percent plus the operating ratio. See phoenix merger worst case for rationale. Unless otherwise advised, assume 0 savings growth first year and 5 percent compounded each year thereafter. ncrease other income each year by 2% of that year's savings growth to reflect points earned in mortgage loans investment. Compute losses through simulation. With phoenix model, purchase ICC's in an amount suffficient to cover simulated losses. Pay 1/4 percent above FSLIC opportunity cost for notes issued. Discount cash flows using a variable opportunity cost as described in FAA norm case. Rerun viability model with interest payment from phoenix input into other income (net). In final year input cash redemption. Use absolute values. Simulate and test viability. Regress stream to compute estimated payback based on net worth levels and net income. Discount to present value at the relevent year rate.

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SUMMATION OF ECONOMIC ASSUMPTIONS

	Constant Case	Normative Case
ADVANCE RATE	5 year bank rate held constant	1 year variable bank rate yr 1 to 10% yr 5
COST OF MONEY	Current yield constant	Current yr 1 to 10% yr 5
GROWTH-SAVINGS	Zero	Zero 1 yr 5% compounded thereafter
INVESTMENT STRATEGY	Liquid invest	Liquid invest + 2% savings growth to other income
INVESTMENT YIELD	Net 2% or gross 2% + Op ration	Net 2% or gross 2% + Op ratio
OPPORTUNITY COST - FSLIC	Current held constant	Current yr 1 to 12% yr 5
OPERATING RATIO	Surviving Assoc. when combining	Surviving Assoc. When combining
NOTE YIELD - ICC PURCHASE	1/4 + FSLIC Op cost	1/4 + FSLIC Op cost
PURCHASE ACCOUNTING	Where applicable Viable Phoenix	Where applicable on FAA viability and Viable Phoenix analysis
SECONDARY MARKET RATE	Current FNMA Auction	Current FNMA Auction
PAYBACK	None	For Viable Phoenix and FAA viability use regression analysis
REO	Sell in 1st year at 25% loss	Sell in 1st year at 25% loss
DEFAULTS	Delinquents on latest monthly. All taken in 1st year at 25% loss	Delinquents on latest monthly. All taken in 1st year at 25% loss

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Federal Home Loan Bank Board

1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

RICHARD T. PRATT
CHAIRMAN

MAY 17 1982

Honorable J. William Stanton
Committee on Banking, Finance
and Urban Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Stanton:

Attached please find the Bank Board's responses to the questions submitted with your letter of April 6. Please accept our apology for the delay but we wanted our answers to be as accurate and responsive as possible.

Sincerely,

Richard T. Pratt

Attachment

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QUESTION 1

On page 4 you state, "The industry lost, in dollar terms, (during 1981) almost $5 billion -- a record -- and saw its collective net worth eroded by about 15 percent."

Given the outstanding profitability of the industry in the years preceding 1979 and the fact that it is normal for industries to encounter prosperous periods, poor periods, dynamic growth, and occasional shakeouts, is it unreasonable to expect the industry to cope with its present difficulties with little or no reliance on federal assistance?

ANSWER 1

Whether it is "unreasonable" to expect the thrift industry to cope with its present difficulties absent federal assistance is ultimately a political decision, requiring Congress to weigh a number of likely public benefits and costs if aid is withheld, as discussed more fully below. There are, however, a number of objective factors which make it extremely difficult for thrifts to cope with the current earnings crisis, and which indicate that this crisis is far more significant than simply a cyclical "poor period" or "an occasional shake-out".

First, it is very important to note that while the thrift industry was profitable before 1979, it certainly did not enjoy "outstanding profitability" in relation to its competitors. For example, in the period from 1974 to 1979, the ratio of commercial banks' net income to average assets ranged from .72 to .80, while thrifts' return on assets ranged lower, from .54 to .67.

Moreover, previous thrift profitability depended on a regulatory environment and financial marketplace which were radically different

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than those existing today. Government policy decisions made in the 1960s and before resulted in tax laws and regulatory requirements which forced thrifts to hold fixed-rate, long-term residential mortgages as their principal assets, while accepting short-term deposits as their major source of funds. Between 1966 and 1980, deposit interest rate control acted to keep thrifts' cost of funds artificially low by imposing ceilings on interest rates payable by both commercial banks and thrifts, while a generally stable economy ensured that the return on long-term assets such as mortgages exceeded the rates payable on deposits. A third factor was that for more than thirty years after World War II thrifts and commercial banks experienced no real competition for short-term funds, as the money market funds which are now so popular were almost unknown until a few years ago. Finally, thrifts were better able to cope with adverse financial conditions in the past because of relatively higher levels of net worth. Thus, at year end in 1969, net worth as a percent of assets for savings and loan associations exceeded 7 percent. However, by year end 1981, the net worth of S&Ls equalled only 4.2 percent of total association assets, down from 5.2 percent at year end 1980. Given all these factors, thrifts experienced a comfortable operating margin prior to 1979.

In sharp contrast to the economic and regulatory conditions that existed prior to 1979, thrifts are now confronting an era where financial markets are becoming more efficient and competitive, where the providers of financial services are no longer limited to commercial banks and thrifts protected by charters granting local monopoly powers, where savers have become aggressive consumers and

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will not subsidize thrifts through accepting low rates on deposits, and where deposit interest rates ceiling are fast becoming a thing of the past. In this climate, an industry which is statutorily and regulatorily prohibited from competing in the broader financial services sector is obviously exposed to grievous risks from changes in the market and in the economy. Thus, resolution of thrifts' problems and restoration of their competitive viability depends not only upon some short term crisis-management solutions, but also upon a major statutory restructuring of the thrift industry. Therefore, regardless of the Congressional decision on federal assistance to thrifts, I continue to recommend strongly that Congress enact the restructuring legislation proposed by the Bank Board and supported by the administration, at the earliest possible date.

With regard to short-term federal assistance, Congress in the final analysis must decide whether such aid is an appropriate response to thrifts' earnings crisis. Specifically, Congress must consider whether the long run advantages of protecting depositors and insuring the stability of financial markets by preventing a host of simultaneous thrift failures outweighs the short-term cost of federal aid, given current budget restraints and the general state of the economy. Because answering these questions involves important, competing public policies, the issues should be addressed in a political forum.

QUESTION 2

On page 5 you state that of the mergers consummated in 1981, only 25% were supervisory.

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Would you say that an additional percentage of mergers represented an industry reaction in anticipation of possible future problems for at least one of the institutions involved in each transaction -- not that this is necessarily undesirable?

ANSWER 2

While we have no statistics bearing on the motivations for non-supervisory mergers, we feel that a substantial percentage of the mergers of that kind occurring in 1981 involved institutions seeking to avoid possible future problems by joining with a stronger institution.

QUESTION 3

On page 9 you state that S&Ls in 1981 experienced "the smallest lending volume since 1974" and that, "perhaps most telling, in the third quarter of 1981, ... S&Ls were responsible for only 8 percent of the total growth in home mortgage debt."

Do these figures mitigate the force of the argument that the industry must be preserved in order to finance housing?

Assuming a given amount of net worth for the industry as a whole, does it matter how many individual institutions exist, as far as the total contribution to housing finance is concerned?

ANSWER 3

It is the Bank Board's contention that thrifts should be preserved to be independent financial intermediaries and the Bank Board has frequently stated as its goal the statutory restructuring of thrifts with broader asset powers so that they may become viable financial service competitors over all phases of the economic cycle, making an important contribution to all types of financing. Given

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the fact that thrifts have historically been involved in housing finance to a significant extent, we do expect that those thrifts which survive the current crisis would continue to make an important contribution in real estate lending.

In the Bank Board's view, conferring on thrifts asset-side powers roughly similar to those granted commercial banks is absolutely necessary given Congress' decision to set in motion a deposit interest rate decontrol process, already substantially under way, that will eliminate all controls by 1986. Only with broader asset powers can thrifts increase their profitability and generate the earnings needed to support competitive market rates. As you are aware, thrifts' current high losses are attributable to the negative yield "spread" caused by the fact that their average cost of funds exceeds the return on low-yielding mortgage portfolios. If thrifts are able to regain profitability with broader asset powers, the Bank Board is confident that they will again be able to make a significant contribution to home finance, although that portion of their assets will necessarily be a smaller slice of the "pie" of the total array of services they could offer. In my view, this situation is far preferable to maintaining the status quo, with thrifts currently out of the housing lending market.

Giving thrifts new asset powers is also eminently logical because it will allow them to provide a whole range of profitable "supermarket" support services for their basic home finance function, which will insure their continued participation in that market. For example, thrifts can currently lend funds to a builder to finance construction but cannot make an additional profit by accepting the

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deposit of those loan proceeds in a corporate checking account. Instead, the builder gives those funds to local commercial banks or money market funds. A similar situation occurs when a borrower obtains funds from a thrift to finance a mortgage and pay for incidental services such as a title insurance policy. Even though part of the loan proceeds may go to a title insurance company agent which is a subsidiary of the savings and loan lender, that company must deposit the loan proceeds in a commercial bank rather than with the S&L since S&Ls cannot offer corporate checking accounts.

QUESTION 4

On page 11 you state that, "thanks to creativity, hard work and long hours" and to "new procedures ... (including) "use of a wider range of merger partners and employment of a broader spectrum of default prevention actions (,) we have been able to stretch considerably the financial and human resources available to the FSLIC."

On page 13 you state, "... the plain fact is that all we really have done, given the enormous magnitude of the problem, is to buy a quantity of time. In essence, by using mergers as a supervisory tool when a problem cannot be resolved by cost-cutting or securing outside capital, we are seeking to spread as much of the industry's own net worth as possible over the industry's trouble spots as a means of conserving the FSLIC's insurance fund."

On page 16 you state, "should federal intervention occur, it should be structured in such a way that it is market-disciplined, efficient to administer, and darwinian in impact, allowing the

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weakest members of the industry to go out of existence, while preserving the stronger institutions."

How do you respond to industry complaints that the Bank Board is more concerned about protecting depositors than about saving institutions?

Under reasonable interest rate scenarios, what is the relative cost of a policy of continued reliance on assisted mergers versus the implementation of proposals to preserve the industry virtually intact?

What is your evaluation of a recent study by Wharton Econometric Forecasting Associates which purports to demonstrate that, "far and away the most expensive way to deal with problem thrifts, short of liquidation, is to force mergers for them."?

ANSWER 4

By statute, the FSLIC insures deposits of thrift institutions, and takes actions necessary for the protection of depositors. The FSLIC is not authorized to engage in activities to protect savings institutions other than those which are coincident with its role as deposit insurer.

The Bank Board as a whole has a broader charge than does the Office of the FSLIC and has vigorously pursued reforms that are jointly in the interests of the thrift industry and the overall economy. Where feasible, we have expanded the powers available to the institutions we regulate and have strongly encouraged the Congress, the DIDC, and the Administration to provide the thrift industry with the means to compete effectively in an increasingly more volatile and sophisticated economic environment.

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Insofar as we are allowed by statute, we have made every effort to provide breathing room for the thrift industry to adjust to the new economic order. Our record with respect to accounting rules, the structuring of assistance agreements, support for expanded powers, and my recent capital assistance alternative presented to the Subcommittee on Housing and Community Development of the House Committee on Banking, Finance and Urban Affairs are but a few examples of the efforts we have made to aid individual savings institutions and the industry as a whole.

As you are aware, there have been a number of estimates of the costs of various proposals to aid the thrift industry. Our analysis of the Wharton study is somewhat limited because we have not yet been able to ascertain the precise assumptions and methodology used in that study. However, our own analyses (and those of a number of independent studies such as the Brookings study) suggest that mergers are most often the most efficient and least costly method of solving problem cases. This is normally the case because of the ability to use scale efficiencies, to eliminate redundant facilities and services, and to improve market presence.

It appears that the Wharton study made a number of assumptions with which we are not in agreement that led to the conclusion that the use of mergers were not cost-effective. First, Wharton seems to have assigned a cost of assisted mergers that exceeds our own expectations. This is especially significant in light of our ability to reduce the per case cost of merger assistance agreements substantially below historical experience in recent months.

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Second, Wharton appears to have ignored both the indirect and the long-run costs which are attached to policies which preserve the status quo. The most important of these are the costs of continuing to provide advances to problem institutions and the ultimate costs of merging or otherwise solving problem cases which are only postponed by interim assistance.

A much more appropriate analysis of the attendant costs of assisted mergers is estimated by Brookings. Brookings estimates a cost of $2.5 to $6.4 billion while Wharton estimates a $35 billion cost under its lowest interest rate scenario. Given today's interest rates, Wharton's estimate of an average T-bill rate in 1983 of 11.9% is not an unreasonable middle-of-the road estimate; however, it is certainly not a reasonable low rate scenario, which is their characterization of this estimate. Obviously Wharton's use of high interest rate estimates inflates the estimated costs of assistance agreements.

Additionally, Wharton appears to have imputed a cost for all mergers, whether assisted or unassisted. The majority of mergers are in fact unassisted, and Wharton's estimates are inflated as a result.

The Bank Board's desire is to assure the continued existence of every viable thrift institution. However, economic reality and the expressed intentions of this administration to encourage deregulation and competition -- intentions with which we are sympathetic -- will likely require a more streamlined and efficient industry in the future.

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QUESTION 5

On page 14 you state, "logic dictates that (thrift institutions) be given flexibility sufficient to generate the earnings needed to pay those rates."

Given the task of deregulation which remains for Congress and for the DIDC, how long must savers be expected to wait to receive a market rate of return on their savings until the thrift institutions are willing and able to pay a market rate?

ANSWER 5

Thrift institutions are currently paying, and savers are receiving, a market rate on virtually all funds, both passbook and time deposits.

It is our view that passbook account rates, albeit nominally lower than the 91-day or 6-month T-bill rates, can be reasonably characterized as market determined rates. Because passbook account-holders have free entry and exit rights, the decision to hold funds in a passbook account rather than transferring money to a money market fund is in effect a decision that the passbook rate is a fully competitive, market rate. In fact, roughly 40 percent of such accounts are in passbook amounts exceeding $10,000.

Additionally, approximately two-thirds of savings and loan deposits (MMCs, 2-1/2 year variable rate accounts and jumbo certificates) are already earning interest rates that reflect nominal money market rates. Moreover, the DIDC has been moving extremely quickly toward deregulation for all deposit accounts, and in our opinion has already moved beyond a halfway point toward the statutory

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mandate of total deregulation of deposit interest rates by 1986. In the last several months, for example, the DIDC has approved a 91-day maturity certificate with a $7,500 minimum denomination, with a ceiling rate tied to the 91-day T-bill auction average; has asked the DIDC staff to prepare additional proposals for a deposit with a shorter term than 91 days that would provide depository institutions with a more competitive vehicle vis-a-vis money market funds; and has approved a 3 1/2 year maturity, ceilingless certificate with no minimum denomination. For all practical purposes, the DIDC's recent authorization of a ceilingless 3 1/2 year account is a deregulated one year account. Under this authority, the FDIC is now permitting state-chartered savings banks to structure the 3 1/2 year account in such a way that savers may withdraw funds after 1 year and still obtain a 15 percent yield, a yield higher than current money market fund rates.

Given these facts, the real question is when thrifts can expect earnings to rise to meet the very high costs they are now experiencing because of the payment of market rates on virtually all deposits. The answer depends primarily on future interest rates. The more short-term market interest rates decline, the less associations will be required to pay for deposits, the less they will need to raise portfolio yields to regain profitablity, and the shorter will be the time period required to restructure. If short-term rates remain high or rise, the converse would be true.

Portfolio restructuring itself requires time because associations not only need to increase yield, but need to increase the cyclical sensitivity of the yield on their assets to balance that

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of liabilities. The attached Table 1 presents estimates of how long portfolio restructuring could take. For example, if three-quarters of all new loans are adjustable rate mortgages and if mortgage originations are equal to 25 percent of the beginning-of-period level of mortgages, then the adjustable-rate mortgage component of the portfolio will be 30 percent after three years and 46 percent after 5 years. These assumptions about the volume and composition of originations, however, are very optimistic.

The purchase of short-term flexible assets is constrained by the amount of deposit inflows and mortgage repayments. In 1981, FSLIC-insured S&Ls experienced a very considerable outflow of retail savings. Furthermore, mortgage repayments have been depressed by the low level of housing activity and by state laws restricting the enforcement of due-on-sale clauses. All these factors inhibit the achieving of the requisite degree of portfolio flexibility for S&Ls to pay market yields on all accounts.

QUESTION 6

On page 14 you refer to the availability to commercial banks of "interest-free demand deposits."

In today's competitive environment, how long would you say it would be realistic, or even desirable, for interest-free funds to be available to depository institutions?

What is your position on H.R. 5414, a proposal by Rep. Bill Gradison to permit thrift institutions to offer NOW accounts to state and local governments?

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ANSWER 6

While it would be beneficial to thrifts for them to be able to accept interest-free demand deposits, we would support bringing these deposits under the jurisdiction of the DIDC, with the objective of bringing them to market rates no later than 1986. With respect to H.R. 5414, we strongly endorse efforts to allow state and local governments to have NOW accounts.

QUESTION 7

On page 16 you state that although you are "philosophically uncomfortable with the notion of government intervention to prevent corporate failures (,) ... there are instances when intervention is appropriate to achieve some transcendent national objective."

Do you have any concern that if a large commitment is made to the salvation of the S&L industry, the financial markets might react adversely and interest rates would rise, jeopardizing further the prospects for the industry, or that the commitment of funds to the thrift industry will make those funds unavailable to other sectors whose performance may be crucial to the prospects for economic recovery, another "transcendent national objective"?

ANSWER 7

The failure of a financial institution is different from the failure of most other corporations in that the government has made a very explicit guarantee about the insurance of deposits. In my view, it would be unconscionable for the government to allow any depositor with deposits under the federal insurance limit to lose anything in a bank or S&L failure. The issue then becomes not whether to protect S&Ls, but how to protect insured depositors

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at the lowest net cost to the deposit insurance funds and the Treasury.

With respect to the possible effects of thrift assistance on the economy, a massive loan warehousing scheme, for example, could destabilize financial markets. I do not see, in any event, a need for such a plan.

QUESTION 8

One concern which occurs under any proposal to concentrate assistance on the weakest institutions, whether under H.R. 5688 or under your own income capital certificate proposal is the effect which such assistance would have upon those relatively healthy institutions which would then have to compete against federally-assisted institutions?

How would you evaluate this effect, and how would you compare the extent of this problem under your proposal versus H.R. 5568?

ANSWER 8

The aid to the industry which is extended under the Pratt plan would have specific provisions which would encourage efficient operations. Though the Pratt plan would slow the rate at which problem institutions reach zero net worth, it would still assure that the weakest institutions would be the first to reach insolvency and to be resolved on a supervisory basis.

In contrast, H.R. 5568 would initially provide qualifying problem associations with full compensation for losses up to the amount that such losses impaired a two percent net worth standard. Thus, H.R. 5568 would impose substantially less market discipline

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upon problem institutions, and as a result would increase competitive pressures on relatively healthy institutions, contrasted with the Pratt plan.

QUESTION 9

On pages 20 and 21 you state, "any increase in the Bank Board's line of credit to the Treasury would increase our capacity for administering such a plan, as well as contribute to its acceptance by the financial community. ... Acceptance would also hinge greatly on the clear availability of the line of credit to fund these obligations should that become necessary."

By "acceptance by the financial community," do you mean the willingness of the financial community to treat the "income capital certificates" as capital rather than debt and the willingness of the financial community to continue to hold securities of the thrift industry?

ANSWER 9

In the context of the testimony, acceptance by the financial community refers generally to the credibility of the assistance effort from the viewpoint of depositors and investors. That effort will be credible only if depositors and creditors deem FSLIC resources adequate to meet the obligations of the assistance program. A line of credit sufficient to cover FSLIC securities issued in conjunction with an assistance program would largely eliminate the default risk likely to be associated with such a program instituted with a more limited line of credit. This would help both assisted institutions and the thrift industry generally to continue to hold and secure deposits and to tap money and capital markets in their efforts to restructure through enhancing the confidence of the

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financial community in the ability of the FSLIC to carry out its basic insurance function.

QUESTION 10

On page 22 you state that, "Regulation of the S&L industry always has profited by the fact that all federal regulatory responsibilities for savings and loan associations are under one roof."

How would you respond to the suggestion which is heard on occasion, that the thrift industry as a whole, including mutual savings banks, now suffers from the fact that federal regulatory responsibilities are under two roofs instead of one?

ANSWER 10

As a general proposition, we believe that the fewer regulators an industry has, the better off it will be. We also believe it would be eminently logical for the Bank Board to assume jurisdiction for all savings banks, so that they could enjoy the same operating flexibility and opportunities the Bank Board has granted federally chartered savings and loan associations. We do not have, however, any hard evidence that the current sharing of thrift regulatory responsibilities at the federal level between the FDIC and the Bank Board has had or is having a negative impact on the thrift industry as a whole.

QUESTION 11

With respect to each of the following provisions of H.R. 5568, please answer the following general questions:

1. How would the provision work in practice?
2. Would you describe the provision as "desirable"?

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3. Would you describe the provision as "workable"?

4. What suggestions would you offer to amend the provision?

a. The capital infusion program designed to maintain the net worth of individual institutions at 2%. How many institutions (number and total assets) do you estimate would qualify for the program today? Do you believe the supervisory agencies can determine eligibility with reasonable certainty and fairness? Should limitations be placed upon the prerogatives of management, to ensure that the federal interest is protected and to create a disincentive for institutions to apply for assistance?

b. The reporting and lending practice requirements. What is meant by lending practices? Would the need to administer this provision place an undue burden on the already strained resources of agencies and of depository institutions?

c. The requirement that not less than 50% of annual net new deposits be invested in single-family mortgages for first-time homebuyers who would pay 1% above the institution's cost of funds. Is it anticipated that there will be any "net new deposits" at all? How many individuals would qualify as first-time homebuyers, and how would institutions allocate limited funds among numerous applicants?

d. The provision for quarterly "earnings stabilization payments." Is it sound public policy to provide "earnings stabilization" insurance to depository institutions? Are the figures for "earnings losses" subject to undue manipulation by the institutions? How would the agencies determine that payments may continue and make the required certification "that the

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continued earnings losses involved are caused by general market conditions and not by the actions of such qualified insured institution"?

ANSWER 11

A. For FSLIC-insured savings and loan associations alone, if 6-month Treasury bill rates continue in the 13-1/2 percent range, it is estimated that raising all net worth ratios to 2 percent would cost about $2.4 billion by year-end 1983 and $6.3 billion by year-end 1983. There would be about 1,051 subsidized institutions at year-end 1982 and approximately 1,829 by year-end 1983. In all likelihood, the provision of any government assistance would require some "reregulation" of financial institutions in order to protect against the waste or misuse of public funds. The current proposal, for example, does not take into account the potential for loss-taking. In the absence of a provision to prevent this, associations would have an inducement to sell below-market assets at a loss in order to reduce net worth below 2 percent and therefore qualify for the subsidy. This alone could generate claims for assistance well in excess of the proposed appropriation.

B. The reporting requirements of the proposed legislation are very general and would require substantial regulatory interpretation and amplification. All FDIC- or FSLIC-insured institutions, however, currently provide substantial information to their regulatory agency on a regular basis and it is likely that existing reports could be modified to provide essential additional information without unduly increasing reporting burden. As already noted, any type of governmental subsidy program will undoubtedly involve some

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reregulation to insure that the public funds are protected.

C. The provision of the plan requiring allocation of a portion of any net new deposits received to first-time home buyers at below market interest rates could be self-defeating, for under this provision the ability of participating institutions to increase the yield on their mortgage portfolios would be sharply limited. This, in turn, would reduce their overall ability to cut operating losses and again become viable. Under these circumstances, the desirability of the entire proposal becomes questionable. Estimates of future demand for housing from first-time homebuyers are highly dependent on assumptions with regard to interest rates, for the lower rates fall, the more potential first-time buyers become qualified for a loan. This would result in a difficult allocation problem for participating institutions, particularly since many institutions may not be able to acquire much in the way of net new deposits in the current structural and financial environment.

In view of these problems, we believe that the deposit allocation requirement transforms H.R. 5568 into a measure which operates more as a housing subsidy measure than an S&L assistance program. If Congress wishes to provide a subsidy to housing, we believe it would be more efficient and less harmful to thrifts to do so directly.

D. The proposal would create a large group of associations with net worth of exactly 2 percent. If the program were discontinued before industry profitability were restored, most of this group could fail in a relatively short period of time, causing a caseload substantially in excess of the resources of the FSLIC. A plan such as proposed by the FHLBB that involves partial reimbursement for losses would distribute the caseload of failing institutions better over time. As noted earlier, some type of reregulation is inevitable for near-failing institutions.

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TABLE 1

Estimates of the Percentage of S&Ls' Mortgage Portfolio in ARMs Starting from an Initial Five Percent Portfolio

		After 3 years			After 5 years		
		Rate of growth of new mortgages			Rate of growth of new mortgages		
		20%	25%	13%	20%	25%	30%
Percent of new mortgages that are ARMs	25%	11%	11%	13%	15%	17%	18%
	50%	19%	21%	23%	28%	31%	34%
	75%	26%	30%	34%	41%	46%	50%

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225-4247

April 6, 1982

Honorable William A. Isaac
Chairman
Federal Deposit Insurance Corporation
550 Seventeenth Street, N. W.
Washington, D. C. 20429

Dear Bill:

Your recent testimony on H.R. 5568, the Home Mortgage Capital Stability Act, before the Subcommittee on Housing and Community Development has been received with great interest and studied closely by Minority Members and Committee staff.

Unfortunately, the limited amount of time available at the hearings did not permit as full a discussion of the issues as we would have liked. However, the Minority staff has developed a series of questions designed to give the witnesses a fuller opportunity to present their views for the record.

It would be very helpful, therefore, if you would respond to the attached list of questions. In order to ensure that your answers will be included in the hearing record, they should be received no later than April 16.

Thank you for your cooperation.

Sincerely,

J. William Stanton

JWS:bfd

Attachment

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FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, D C 20429

OFFICE OF THE CHAIRMAN

April 16, 1982

Honorable J. William Stanton
Ranking Minority Member
Committee on Banking, Finance and
Urban Affairs
House of Representatives
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Stanton:

We are pleased to respond to the questions on H. R. 5568 presented in your letter of April 6, 1982.

Question 1.

On page 1 you refer to an assumption that "funds can be allocated to this endeavor without increasing upward pressures on interest rates,..." You go on to say that, "A program of financial assistance ..., if not approached within the context of an overall strategy that exerts downward pressure on interest rates, is likely to be self-defeating."

Are you concerned that H. R. 5568, if enacted in its present form, would send a message to the financial markets that Congress is willing to spend an unduly large amount of money to preserve the specialized thrift industry and that the result might be an adverse reaction in financial markets which would drive up interest rates and further aggravate the problems of the industry?

Answer: No, I don't think we are saying that this legislation taken by itself would precipitate any given reaction in financial markets. What we are saying is that the conventional wisdom is that the persistence of high interest rates is due in large measure to the total anticipated Federal deficit. If this premise is valid then any program that increases the deficit may exacerbate the problems of the thrifts.

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Question 2.

On page 2 you state that it would be "imprudent" to try to preserve the thrift industry in its present form, given that "The marketplace has served periodic notice ... that our system of mandatory specialization, accompanied by rigid interest rate controls, is no longer viable."

How do you respond to a major justification which has been advanced for preserving the industry, that it would be cheaper to preserve the industry than to liquidate it, because liquidation could cost as much as $90 billion?

How much would it cost, under a reasonable interest rate scenario, to rely upon assisted mergers as the principal device with which to manage the problems of the thrift industry?

What is your evaluation of a recent study by Wharton Econometric Forecasting Associates which purports to demonstrate that, "Far and away the most expensive way to deal with problem thrifts, short of liquidation, is to force mergers for them."?

Answer: The important phrase in my comment on preservation is "in its present form." If the thrifts had new asset powers so they could increase earnings and if they were free to pay market rates for deposits, many thrifts could survive at no cost to the government.

Studies such as the Wharton study that try to measure the costs of mergers against various forms of direct assistance have reached their conclusions based on faulty data and erroneous assumptions. More importantly, they beg the issue -- unless the root causes of the problems are addressed the costs will continue to escalate whichever route one takes.

Question 3.

On page 3 you state, "Our first tenet is that the assistance should be available only on a selective basis. Inept management should not be subsidized with funds intended to provide temporary relief to victims of unexpected and unprecedented economic conditions."

On March 24, Mr. Roy G. Green, testifying for the U.S. League of Savings Associations, complained that, "The FSLIC and FDIC's primary orientation is protection of depositors, not preservation of institutions." Mr. Green went on to recommend that the regulators "be relieved of such subjective eligibility judgments as a determination of 'reasonable prospects for long-term

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viability'" on the ground that, "the capricious turns of the interest rate cycles, and ... the haphazard decisions of the DIDC, make such long-term assessments very difficult ... if not impossible." (Pages 11 and 14 of Mr. Green's statement.)

How do you respond to Mr. Green's suggestion that the regulators should not be called upon to eliminate the inept operators?

One concern which occurs under any proposal to concentrate assistance on the weakest institutions is the effect which such assistance would have upon those relatively healthy institutions which would then have to compete against Federally-assisted institutions. How would you evaluate this effect, and would you recommend any specific measures to overcome it?

Answer: We agree that it is sometimes difficult to predict the long-term prospective viability of an institution. On the other hand, there are a good many instances in which it is relatively easy to ascertain that an institution will not make it. In those instances we feel it would be inappropriate to expend taxpayers' money to keep the institutions operating.

We feel very strongly that local communities and the financial system as a whole are better served by assisted mergers which create stronger, more viable institutions than by simply propping up failing institutions. Capital infusions should be used only where sound mergers cannot be arranged at a reasonable cost. If utilized, capital infusions should be accompanied by stringent operating controls.

Assisting institutions on a selective basis -- regardless of how they are selected -- will obviously create some inequities vis-a-vis nonassisted institutions. The only way we know to minimize this is to keep the assistance at the minimum level needed to achieve your goal.

Question 4.

On page 6 you refer to the adverse effects of "unjust and burdensome" state and local franchise taxes and recommend addition of "a proviso which would require that any state or local government with such a tax would have to waive it for institutions being assisted under the Act until repayment is effected."

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Would you favor withholding such assistance in the first place unless a waiver is forthcoming?

Answer: Yes.

Question 5:

You have repeatedly stressed the importance to depository institutions of the power to offer a short-term deposit instrument to allow them to compete against nondepository financial institutions. Many thrift institutions are also seeking enhancements in their ability to compete for deposits against commercial banks.

What is your position on H. R. 5414, a proposal by Rep. Bill Gradison to permit thrift institutions to offer NOW accounts to state and local governments?

Answer: The FDIC has not taken a position on H. R. 5414 but we are generally in favor of broad-based deregulation.

Question 6:

With respect to each of the following provisions of H. R. 5568, please answer the following questions:

1. How would the provision work in practice?
2. Would you describe the provision as "desirable"?
3. Would you describe the provision as "workable"?
4. What suggestions would you offer to amend the provision?

a. The Capital Infusion Program designed to maintain the net worth of individual institutions at 2%. How many institutions (number and total assets) do you estimate would qualify for the program today? Do you believe the supervisory agencies can determine eligibility with reasonable certainty and fairness? Should limitations be placed upon the prerogatives of management, to ensure that the Federal interest is protected and to create a disincentive for institutions to apply for assistance?

b. The reporting and lending practice requirements. What is meant by lending practices? Would the need to administer this provision place an undue burden on the already strained resources of agencies and of depository institutions?

c. The requirement that not less than 50% of annual net new deposits be invested in single-family mortgages for first-time homebuyers who would pay 1% above the institution's cost of funds. Is it anticipated that there

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will be any "Net new deposits" at all? How many individuals would qualify as first-time homebuyers, and how would institutions allocate limited funds among numerous applicants?

d. The provision for quarterly "Earnings Stabilization Payments." Is it sound public policy to provide "earnings stabilization" insurance to depository institutions? Are the figures for "earnings losses" subject to undue manipulation by the institutions? How would the agencies determine that payments may continue and make the required certification "that the continued earnings losses involved are caused by general market conditions and not by the actions of such qualified insured institution"?

Answer:

6.a. At the moment there are only a couple of MSBs with book net worth of less than 2 percent. In the neighborhood of 45 might be expected to drop that low through the end of 1983 assuming second half 1981 earnings continue for 1982 and 1983. FDIC projections are that we will be handling a relatively small number of banks over which we have had supervision for a number of years. We believe we can make fair and reliable judgments about the value of capital infusions for any given institution and administer any sanctions needed.

6.b. If assistance is to be provided -- particularly if it is to be provided on a quarterly basis -- we consider it appropriate to require some form of reporting to justify its continuation. We do not know what the authors of the bill were referring to as "lending practices" but presume it related to the requirements of Sec. (E)(iii).

6.c. As noted in our testimony, we do not believe any provisions of H. R. 5568 would be effective in generating net new deposits. We believe legislation to grant new asset powers for thrifts is essential. If such legislation were enacted the DIDC would be in a position to authorize new deposit categories which would enable thrifts to compete effectively for deposits.

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The requirement for investing 50 percent of net new deposits in single, family mortgages for first-time homebuyers at 1 percent over the institution's cost of funds is economically unsound. It would also pose administrative problems for both the institutions and the regulators.

6.d. Whether it is sound public policy to provide earnings stabilization payments to depository institutions is a matter for Congress to decide. Should the Congress decide in the affirmative, it should then establish the conditions that stipulate what kinds of losses are to be covered and the conditions for continuing eligibility. As we noted in our testimony, we felt H. R. 5568 as originally introduced did not stipulate these matters with sufficient precision.

In closing, let me state that we would have serious reservations about any program for capital infusions which calls for support based on a rigid formula rather than granting the FDIC broad discretion to decide when support is appropriate, how much support is necessary and the terms under which it will be granted. The Corporation is confronted with a complex set of circumstances and has accumulated substantial expertise in handling troubled financial institutions. There are no simple solutions which can be applied across the board, and it would be a mistake to tie our hands unnecessarily.

We appreciate this opportunity to offer additional comments and look forward to a continuing dialogue with the Committee as legislative proposals in this area progress.

Sincerely,

William M. Isaac
Chairman

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Mr. ST GERMAIN. Now we have our next witness, Mr. Roger Mehle, Assistant Secretary, Domestic Finance, U.S. Department of the Treasury.

Mr. Mehle, we received your testimony this morning which did not give us an opportunity to read it with thoroughness and with an analytical eye. And under the circumstances, we would ask you to read your entire text into the record so that the members may have the benefit of your words of wisdom.

Mr. MEHLE. Mr. Chairman, my apologies for not having the testimony here earlier this morning. Did you say you would like to have me deliver my entire text?

Mr. ST GERMAIN. I do not think it is that long.

Mr. MEHLE. I think it would take me about a half an hour to deliver it.

Mr. ST GERMAIN. Why don't you proceed and we will see how the timing goes? We have all day. We are not going to limit your time.

Mr. MEHLE. Thank you.

STATEMENT OF ROGER W. MEHLE, JR., ASSISTANT SECRETARY OF THE TREASURY, DOMESTIC FINANCE

Mr. MEHLE. Mr. Chairman and members of this distinguished subcommittee, I do appreciate the opportunity to review with you again the condition of depository institutions, their ability to deliver credit to all sectors of the economy and the contingency plans available to deal with any problems confronting the institutions.

In particular, Mr. Chairman, I am pleased to present the administration's testimony on H.R. 5568, the "Home Mortgage Capital Stability Act" introduced by Chairman St Germain.

My testimony will focus on the current condition of the thrift institutions, how we should be structuring and modernizing legislative and regulatory constraints that affect them, and the role for measures like those suggested by your proposed legislation. Every action that we take should be part of a process of building a strong and competitive framework that will give our thrift institutions the flexibility to respond to a changing financial environment and shifting market forces for years to come.

CONDITION OF THRIFT INSTITUTIONS

Despite enormous inflationary pressures, our depository institutions generally have been performing adequately. The foreign and domestic assets of federally insured commercial banks increased 9.1 percent in 1981 and their return on equity, after tax, was a healthy 13.2 percent, compared with 13.7 percent in 1980. Bank net worth increased 9.3 percent.

Federal credit unions increased their assets by 6.4 percent in 1981 and achieved a rate of return on assets of approximately .57 percent in 1981, which is a threefold increase over their 0.14 percent rate of return in 1980.

The one problem area involves thrift institutions—savings and loan associations and mutual savings banks. The assets of federally insured savings and loan associations and mutual savings banks increased 5.2 and 2.4 percent, respectively, in 1981. However, as a result of operating losses experienced by both types of institutions,

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their net worth declined 15.0 and 12.3 percent, respectively. There should be no doubt that the administration is very much aware of the thrift industry's earnings, and, hence, its net worth problems. We are concerned both for the health of the industry itself and for the flow of funds to the housing sector.

As we discussed during my appearance before the full committee last July, the fundamental problem facing thrift institutions is the structural imbalance between an asset portfolio dominated by long-term, fixed-rate, low-yield mortgage instruments and liabilities increasingly dominated by rate-sensitive, shorter-term deposit instruments.

Thrift institutions are using an increasing amount of deposit liabilities with interest rates that vary with market rates to make new mortgage loans or to carry long-term mortgages made in prior years at fixed rates of interest. The instititutions' deposits which are under federal interest rate ceilings are inevitably eroding as customers take advantage of alternative market rate accounts, both within and outside the institutions.

This imbalance between increasingly rate sensitive liabilities and long-term rate insensitive assets is central to the thrift industry's earnings problems. For almost 2 years, short-term interest rates have exceeded the rates on most of the institutions' existing mortgages. As a result, thrift institutions have been paying more for their liabilities than they are earning on their assets, thus operating at a loss and eroding their net worth.

DECLINING NET WORTH; ADEQUACY OF CASH FLOW

Until short-term interest rates decline and the cost of funds falls below the average asset portfolio yield, thrift institutions will continue to experience operating losses eroding their net worth. The decline in net worth is important not for its own sake, since it does not determine a depository institution's ability to conduct its business, but because at some point depositors and lenders may become troubled by the erosion of an account commonly—and correctly—thought of as a mark of financial soundness for non-depository institutions.

In addition, some State regulatory officials and others concerned with the industry's condition have come to accept net worth declines below some arbitrary minimum level as automatically necessitating a merger or liquidation of the institution in question. In at least one State a thrift institution may not pay interest on deposits if its net worth falls below a specified percentage of deposits. This is true despite the fact, as I said, that the decline in net worth does not necessarily inhibit the institution's day to day operations so long as it can maintain a positive cash flow.

In contrast to its poor earnings performance for the past 2 years, the thrift industry has had, and continues to have, ample cash flow with which to conduct its business and meet its obligations to depositors. Interest income, mortgage principal repayments and Federal Home Loan Bank borrowings have more than offset withdrawals of thrift industry deposits during the last 12 months. Such excess funds have been invested in new, higher yielding assets, principally mortgage loans, and have resulted in an increase in

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savings and loan assets by 5.6 percent between the end of January 1981 and the end of January 1982.

INTEREST RATE DEREGULATION

What the industry needs most immediately, along with the entire economy, is lower short-term interest rates. But for a long-term solution to the industry's problems, we must also deal with the asset and liability structure that limits the ability of thrifts to cope with high interest rates.

During the 12 months ending January 31, 1982, only deposit categories paying market and near-market rates of interest have generated additional deposit flows. Such accounts at savings and loan associations increased by $70.2 billion, or 24.6 percent, between January 1981 and January 1982, while those accounts paying less declined in the aggregate by $55.6 billion, also, 24.6 percent, account base. In particular, the 2½-year small saver certificate alone provided an additional $40 million—an increase of 66 percent in 6 months—after the Depository Institutions Deregulation Committee removed the 12-percent interest rate cap last August and let the rate float with the 2½-year Treasury note yield.

To assure all depository institutions' ability to continue to obtain deposit resources, the DIDC has acted to raise strangulating interest rate ceilings and create new deposit account categories competitive with open market alternatives, particularly money market funds. On Monday, March 22, the DIDC created a 3-month time deposit indexed to 91-day Treasury bill rates with a quarter of a percentage point interest rate differential in favor of thrift institutions. In addition, the committee acted to begin phasing out interest rate ceilings on time deposits starting with maturities of 3½ years and over. Deregulation at the longer end of the maturity structure of regulated deposit accounts will enable all depository institutions to attract a more stable base of longer-term funds.

STRUCTURAL THRIFT INDUSTRY PROBLEMS

Apart from the necessity for competitive deposit accounts, let us focus on the basic structural problems of the thrift industry. As I stressed in my July testimony before the full committee, thrift institutions must have the ability to invest in a portfolio of assets which will provide greater rate sensitivity and allow a sufficient rate of return during all phases of the business cycle. The long-time limitations imposed upon them to invest nearly exclusively in fixed-rate mortgages is largely responsible for their present plight.

Legislation has been introduced in both the House and the Senate to accomplish an important first step in removing governmental restrictions on the thrift industry. The relevant bills are the "Thrift Institutions Restructuring Act of 1981," H.R. 4724, introduced by Congressman Stanton, and S. 1720, the "Financial Institutions Restructuring and Services Act of 1981." Congressman Stanton's bill and the comparable provisions of S. 1720 have the administration's strong support with few exceptions, and I urge the House Banking Committee to take prompt action on H.R. 4724.

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I would now like to review the most significant features of the legislation in the administration's view and set forth our reasons for supporting them.

EXPANDED ASSET POWERS

Title II of the Stanton bill would give thrift institutions many of the same investment and lending powers that commercial banks now have, such as the power to make commerical and agricultural loans, with only such limitations as are applicable to a national bank of the same size. The bill's approach is appropriate, since our goal is to permit all depository institutions eventually to compete on equal terms. We recognize that this legislation would not eliminate all inequalities between thrift institutions and commercial banks, but it would move us a long way in that direction. It is important that we make as much progress as possible in deregulating thrift institutions at this time. We can deal with remaining inequalities at a later date in other legislations.

Providing thrifts with new investment and lending powers need not diminish their contribution to housing finance, however. Real estate lending is their area of greatest expertise, and they are likely to continue expanding this activity. The ability to make a broader range of loans and investments should supplement their real estate lending and help the industry stabilize its earnings in periods when there is strong demand for other services, such as commercial and consumer loans, but a relatively lower demand for mortgages.

INTERSTATE AND INTERINDUSTRY MERGERS

Both H.R. 4724 and S. 1720 would authorize emergency interstate and interindustry mergers and acquisitions to rescue troubled commercial banks and thrifts institutions. The flexibility so granted would greatly assist the regulatory agencies in coping with problem organizations. It should also reduce the cost to the Federal deposit insurance agencies by opening attractive markets to acquirers who might pay a premium for a troubled institution in order to enter one of those markets. We regard provisions for interstate and interindustry mergers and acquisitions as an essential element of any legislative assistance to the thrift industry.

PREEMPTION OF DUE-ON-SALE CLAUSE PROHIBITIONS

The Administration has also reviewed provisions of H.R. 4724 and S. 1720 which would preempt State due-on-sale clause prohibitions and has determined that preemption is necessary and appropriate. We would confine the preemption to federally chartered depository institutions, as well as lenders—other than State chartered depository institutions—approved by the Secretary of Housing and Urban Development for participation in any mortgage insurance program under the National Housing Act. State-chartered depository institutions have the ability to convert to a Federal charter if State due-on-sale prohibitions prove onerous or if the States do not eliminate such prohibitions.

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PREEMPTION OF STATE USURY CEILINGS

The Depository Institutions Deregulation and Monetary Control Act of 1980 preempts State usury ceilings on mortgage and commercial loans, if State legislatures do not reinstate the ceilings for their States within 3 years from the effective date of the Act.

We favor provisions of S. 1720 which would preempt usury ceilings for all loans in the manner prescribed in the Deregulation Act. In our opinion, usury ceilings can only distort financial markets and credit flows and do not reduce the cost of credit in the economy. Moreover, if usury ceilings on consumer loans are not preempted, thrift institutions will be discouraged from developing their new consumer loan powers.

Now, Mr. Chairman, let me turn to the short-term problems of thrift institutions.

PUBLIC CONFIDENCE IN DEPOSITORY INSTITUTIONS

One of the principal advantages of a federally insured depository institution is that it can offer accounts insured by an agency of the Federal Government for the first $100,000 of a customer's deposits. Although we believe that there is no reason to question the ability of the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation to meet their insurance obligations, a variety of commentators have expressed concern about whether the insurance agencies would be able to handle the problems in the thrift industry arising from their losses and consequent net worth decline.

As a result, several actions have been taken to eliminate those concerns. First, senior administration officials have stated publicly that the United States Government will do whatever might be necessary to aid the insurance agencies in their protection of depositors. The Secretary of the Treasury made this point specifically on Monday in his opening statement at the DIDC meeting. Second, congressional resolutions have been passed by both the House and the Senate which make clear Congress position in this regard. We are not assuming the insurance agencies' liabilities and their responsibilities, but we are committing to assist them in the unlikely event that they need such assistance.

At the present time, the Treasury line of credit to the FDIC fund is $3 billion, and to the FSLIC fund is $750 million. There seems to be little question as to the adequacy of the FDIC line of credit, and the administration cannot now foresee that even the FSLIC will have any need to draw on its line of credit. Even after merger assistance, the FSLIC fund balance at the end of 1981, $6.3 billion, as compared to $6.5 billion at the end of 1980. The fund appears to be adequate for presently projected needs, and certainly any likely rate of utilization will be slow enough to permit due reconsideration by Congress and the administration of any need to expand the backup line.

INCOME CAPITAL CERTIFICATION PROGRAM

To the extent specific assistance is required to alleviate temporary net worth problems for those members of the industry that

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otherwise are viable, we believe that Federal agencies have the authority and means to furnish such assistance under current law. We believe the recently developed FSLIC income capital certificate program shows that adequate relief can be provided. The ICC is a security issued by savings and loan associations to the FSLIC in exchange for an FSLIC note, which provides the issuing association with net worth. These FSLIC notes do not require the use of cash except for interest payments, and therefore have only a limited Federal budget impact. There would be an additional budget expenditure only if the notes were required to be paid off in cash to an institution, which, given the adequacy of the industry's cash flow, is extremely unlikely.

Already the FSLIC has used ICC's on four occasions to adjust net worth in connection with the merger of certain troubled institutions, and we understand that they will be using the program more extensively in the future. In our opinion, this is exactly what is needed to accommodate thrift institution net worth problems.

H.R. 5568

Mr. Chairman, although we remain committed to working together with you in addressing the problems that prompted you to introduce H.R. 5568, our objective is to obtain a solution to thrift industry problems that will minimize the cost to the Government and maintain the framework in which depository institutions have been able to serve the needs of their communities and the Nation at large.

We have examined H.R. 5568 carefully and have concluded that it is unnecessary. Moreover, we believe that certain parts of it would in fact harm the thrift industry.

Under the current regulatory system the responsibility for maintaining solvency and insuring profitable operation of thrift institutions resides first with the institutions themselves. The Federal insurance agencies share responsibility for insured deposits, so they assume a supervisory role in assuring that by their own standards an institution is operating so as to protect the integrity of insured deposits. Mandating that institutions operating with losses automatically qualify for restoration of net worth to some arbitrary level absolves both the institution and the agency of a substantial portion of their responsibility for protecting the income stream of the institution. Providing continuing replenishment of subsequent earnings losses further constrains the insurance agencies from taking corrective action that they made deem necessary.

The Federal deposit insurance agencies are experienced in adapting their current range of remedial measures to individual institutions that are quite different with respect to financial structure and outlook, competitive market positions and other relevant factors. A rigid legislative assistance program with fixed terms cannot be developed to meet all circumstances that regulators encounter. H.R. 5568 is addressed to broad financial need, but it does not provide sufficient flexibility to the regulatory agencies, flexibility necessary for ICC structuring features such as eligibility, repayment terms, yield, level of net worth restoration and treatment of future

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asset growth. Trying to make a statutory rule a common denominator will result in an inefficient and possibly damaging program.

With regard to its specific focus on housing, it is not clear to us that H.R. 5568 will generate additional funds for homebuilding. Moreover, we are concerned about the specific requirement that 50 percent of an institution's net new deposits be used to issue mortgages at a rate of interest not more than 1 percent greater than the average cost of funds for the institution. This provision would further exacerbate the earnings and net worth problems of the institutions the bill is designed to help. In November 1981 insured savings and loans were earning 10.4 percent on their assets and paying 12 percent for their funds. Charging no more than 1 percent greater than average funds costs would not close the earnings gap, but more importantly, it probably would not even cover the cost of the funds used for the loans because new funds now cost more than the average. The money market certificate [MMC] ceiling rate for the week of March 16–22 was 13.2 percent, and the ceiling rate for thrift small savers certificates [SSC's] was 14.1 percent. Over half of the savings and loan industry deposits are held in MMC's and SSC's and another 10 percent of deposits is held in large certificates of deposit with no ceilings. Nothing would be accomplished if savings and loans must pay 14 percent or more for new money but can charge only 13 percent for the loans made with those funds.

In addition, I would point out that savings and loan institutions are continuing to invest principally in housing. During 1981, the net increase in mortgage loans outstanding at savings and loan associations contributed to 46 percent of the total increase in savings and loan association assets. Increases in mortgage-backed securities accounted for another 18 percent of the asset increase. As a result, mortgage-related investments continue to constitute more than half of the total increase in assets, even at a time when savings and loan associations might naturally try to arrange for greater diversity in their portfolios.

H.R. 5568 would have had no effect over the past year, since there were no net new deposits and therefore no funds to which the bill's investment requirements would have applied. Even if interest credited were included in the definition of net new deposits, as we believe it should be, only $6.7 billion in housing investments would have been required in 1981. The approximately $21 billion actual increase in mortgage loans outstanding and mortgage-backed securities was triple the size of this deposit increase.

All of this leads me to conclude, Mr. Chairman, that H.R. 5568 does not advance our mutual objectives. Assistance to troubled depository institutions provided in the bill is not likely to be greater than that available already through existing programs. And indeed, the reinvestment requirement may be harmful to thrift institutions.

We should observe carefully as the insurance agencies exercise existing authority and expand their use of the ICC program, rather than attempt to revise their authority before it becomes apparent that they need our assistance.

In summary, we believe that the thrift industry can successfully weather the current adverse economic environment. It will need some help, but the wherewithal for that assistance is already avail-

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able from the FDIC and the FSLIC. If additional money or powers are needed by the agencies, the administration will join the Congress in responding to that need. In the meantime, we should encourage the use of ICC's where appropriate and provide legislation supporting private solutions to the industry's problems, such as authorizing interstate and interindustry mergers of troubled institutions and preempting due-on-sale clause prohibitions and preempting State usury ceilings.

Most importantly, we must remove the legal restrictions on thrift institutions' lending and investment activities as H.R. 4724 and S. 1720 would do. No public policy dealing with this industry would be sufficient if it did not attempt to deal with the industry's structural problems. The public must not be forced to cope with a troubled thrift industry and inadequate funds for housing every time short-term interest rates rise.

Mr. Chairman, that concludes my testimony. I will be pleased to answer any questions that you and any members of the subcommittee may have.

[Mr. Mehle's prepared statement follows:]

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Testimony of the Honorable Roger W. Mehle, Jr.
Assistant Secretary of the Treasury
(Domestic Finance)
Before the
Subcommittee on Housing and Community Development
of the
House Committee on Banking, Finance and Urban Affairs

Mr. Chairman and members of this distinguished Subcommittee:

I appreciate this opportunity to review with you again the condition of depository institutions, their ability to deliver credit to all sectors of the economy and the contingency plans available to deal with any problems confronting the institutions. In particular, Mr. Chairman, I am pleased to present the Administration's testimony on H.R. 5568, the "Home Mortgage Capital Stability Act" introduced by Chairman St Germain.

My testimony today will focus on the current condition of thrift institutions, how we should be structuring and modernizing legislative and regulatory constraints that affect them, and the role for measures like those suggested in Chairman St Germain's proposed legislation. Every action we take

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should be part of a process of building a strong and competitive framework that will give our thrift institutions the flexibility to respond to a changing financial environment and shifting market forces for years to come.

Condition of Thrift Institutions

Despite enormous inflationary pressures, our depository institutions generally have been performing adequately. The foreign and domestic assets of Federally insured commercial banks increased 9.1% in 1981 and their return on equity, after tax, was a healthy 13.2%, compared with 13.7% in 1980. Bank net worth increased 9.3%. Federal credit unions increased their assets by 6.4% in 1981 and achieved a rate of return on assets of .57% in 1981 which is a three fold increase over their .14% rate of return in 1980.

The one problem area involves thrift institutions (savings and loan associations and mutual savings banks). The assets of Federally insured savings and loan associations and mutual savings banks increased 5.2% and 2.4%, respectively, in 1981. However, as a result of operating losses experienced by both types of institutions, their net worth declined 15.0% and 12.3%, respectively. There should be no doubt that the Administration is very much aware of the thrift industry's earnings, and hence, its net worth problems. We are concerned both for the health of the industry itself and for the flow of funds to the housing sector.

As we discussed during my appearance before the full Committee last July, the fundamental problem facing thrift institu-

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tions is the structural imbalance between an asset portfolio dominated by long-term, fixed rate, low-yield mortgage instruments and liabilities increasingly dominated by rate-sensitive shorter-term deposit instruments.

Thrift institutions are using an increasing amount of deposit liabilities with interest rates that vary with market rates to make new mortgage loans or to carry long-term mortgages made in prior years at fixed rates of interest. The institutions' deposits which are under Federal interest rate ceilings are inevitably eroding as customers take advantage of alternative market rate accounts both within and outside the institutions.

This imbalance between increasingly rate sensitive liabilities and long-term rate insensitive assets is central to the thrift industry's earnings problems. For almost two years, short-term interest rates have exceeded the rates on most of the institutions' existing mortgages. As a result, thrift institutions have been paying more for their liabilities than they are earning on their assets, thus operating at a loss and eroding their net worth.

Declining Net Worth; Adequacy of Cash Flow

Until short-term interest rates decline, and the average cost of funds falls below the average asset portfolio yield, thrift institutions will continue to experience operating losses eroding their net worth. The decline in net worth is important not for its own sake, since it does not determine a depository institution's ability to conduct its business, but because at some point depositors and lenders may become

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troubled by the erosion of an account commonly (and correctly) thought of as a mark of financial soundness for non-depository institutions.

In addition, some state regulatory officials and others concerned with the industry's condition have come to accept net worth declines below some arbitrary minimum level as automatically necessitating a merger or liquidation of the institution in question. In at least one state a thrift institution may not pay interest on deposits if its net worth falls below a specified percentage of deposits. This is true despite the fact, as I said, that a decline in net worth does not necessarily inhibit the institution's day-to-day operations so long as the institution can maintain a positive cash flow.

In contrast to its poor earnings performance for the past two years, the thrift industry has had, and continues to have, ample cash flow with which to conduct its business and meet its obligations to depositors. Interest income, mortgage principal repayments and Federal Home Loan Bank borrowings have more than offset withdrawals of thrift industry deposits during the last twelve months. Such excess funds have been invested in new, higher yielding assets, principally mortgage loans, and have resulted in an increase in savings and loan assets by 5.6% between the end of January 1981 and the end of January 1982.

Interest Rate Deregulation

What the industry needs most immediately, along with the entire economy, is lower short-term interest rates. But

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for a long-term solution to the industry's problems, we must also deal with the asset and liability structure that limits the ability of thrifts to cope with high interest rates.

During the twelve months ended January 31, 1982 only deposit categories paying market and near market rates of interest have generated additional deposit flows. Such accounts at savings and loan associations increased by $70.2 billion, or 24.6%, between January 1981 and January 1982, while those accounts paying less declined in the aggregate by $55.6 billion, also 24.6%. In particular, the 2-1/2 year small saver certificate alone provided an additional $40 billion -- an increase of 66% in 6 months -- after the Depository Institutions Deregulation Committee (DIDC) removed the 12% interest rate cap last August and let the rate float with the 2-1/2 year Treasury note yield.

To assure all depository institutions' ability to continue to obtain deposit resources, the DIDC has acted to raise strangulating interest rate ceilings and create new deposit account categories competitive with open market alternatives, particularly money market funds. On Monday, March 22, the DIDC created a three-month time deposit indexed to 91-day Treasury bill rates with a quarter of a percentage point interest rate differential in favor of thrift institutions. In addition, the Committee acted to begin phasing out interest rate ceilings on time deposits starting with maturities of 3-1/2 years and over. Deregulation at the longer end of the maturity structure of regulated deposit accounts will enable

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all depository institutions to attract a more stable base of longer-term funds.

Structural Thrift Industry Problems

Apart from the necessity for competitive deposit accounts, let us focus on the basic structural problems of the thrift industry. As I stressed in my July testimony before the full Committee, thrift institutions must have the ability to invest in a portfolio of assets which will provide greater rate sensitivity and allow a sufficient rate of return during all phases of the business cycle. The long-time limitations imposed upon them to invest nearly exclusively in fixed rate mortgages is largely responsible for their present plight.

Legislation has been introduced in both the House and the Senate to accomplish an important first step in removing governmental restrictions on the thrift industry. The relevant bills are the "Thrift Institutions Restructuring Act of 1981," H.R. 4724, introduced by Congressman Stanton, and S. 1720, the "Financial Institutions Restructuring and Services Act of 1981." Congressman Stanton's bill and the comparable provisions of S. 1720 have the Administration's strong support, with few exceptions, and I urge the House Banking Committee to take prompt action on H.R. 4724.

I will now review the most significant features of the legislation in the Administration's view and set forth our reasons for supporting them.

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Expanded Asset Powers

Title II of the Stanton bill would give thrift institutions many of the same investment and lending powers that commercial banks now have, such as the power to make commercial and agricultural loans, with only such limitations as are applicable to a national bank of the same size. The bill's approach is appropriate, since our goal is to permit all depository institutions eventually to compete on equal terms. We recognize that this legislation would not eliminate all inequalities between thrift institutions and commercial banks, but it would move us a long way in that direction. It is important that we make as much progress as possible in deregulating thrift institutions at this time; we can deal with remaining inequalities at a later date in other legislation.

Providing thrift institutions with new investment and lending powers need not diminish their contribution to housing finance, however. Real estate lending is their area of greatest expertise and they are likely to continue expanding this activity. The ability to make a broader range of loans and investments should supplement their real estate lending and help the industry stabilize its earnings in periods when there is strong demand for other services, such as commercial and consumer loans, but a relatively lower demand for mortgages.

Interstate and Interindustry Mergers

Both H.R. 4724 and S. 1720 would authorize emergency interstate and interindustry mergers and acquisitions to rescue troubled commercial banks and thrift institutions.

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The flexibility so granted would greatly assist the regulatory agencies in coping with problem organizations. It should also reduce the cost to the Federal deposit insurance agencies by opening attractive markets to acquirers who might pay a premium for a troubled institution in order to enter one of those markets. We regard provisions for interstate and interindustry mergers and acquisitions as an essential element of any legislative assistance to the thrift industry.

Preemption of Due-on-Sale Clause Prohibitions

The Administration has reviewed provisions of H.R. 4724 and S. 1720 which would preempt state due-on-sale clause prohibitions and has determined that preemption is necessary and appropriate. We would confine the preemption to Federally chartered depository institutions, as well as lenders -- other than state chartered depository institutions -- approved by the Secetary of Housing and Urban Development for participation in any mortgage insurance program under the National Housing Act. State-chartered depository institutions have the ability to convert to a Federal charter if state due-on-sale prohibitions prove onerous or if the states do not eliminate such prohibitions.

Preemption of State Usury Ceilings

The Depository Institutions Deregulation and Monetary Control Act of 1980 preempts state usury ceilings on mortgage and commercial loans, if state legislatures do not reinstate the ceiling for their states within three years from the ef-

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fective date of the Act. We favor provisions of S. 1720 which would preempt usury ceilings for all loans in the manner prescribed in the Deregulation Act. In our opinion, usury ceilings can only distort financial markets and credit flows and do not reduce the cost of credit in the economy. Moreover, if usury ceilings on consumer loans are not preempted thrift institutions will be discouraged from developing their new consumer loan powers.

Now, Mr. Chairman, let me turn to the short term problems of thrift institutions.

Public Confidence in Depository Institutions

One of the principal advantages of a Federally insured depository institution is that it can offer accounts insured by an agency of the Federal government for the first $100,000 of a customer's total deposits. Although we believe that there is no reason to question the ability of the Federal Deposit Insurance Corporation (FDIC) and the Federal Savings and Loan Insurance Corporation (FSLIC) to meet their insurance obligations, a variety of commentators has expressed concern about whether the insurance agencies would be able to handle the problems of the thrift industry arising from their losses and consequent net worth decline.

As a result, several actions have been taken to eliminate those concerns. First, senior Administration officials have stated publicly that the United States Government will do whatever might be necessary to aid the insurance agencies in their protection of depositors. The Secretary of the Treasury

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made this point specifically on Monday in an opening statement at the quarterly DIDC meeting. Second, Congressional resolutions have been passed by both the House and Senate which make clear Congress' position in this regard. We are not assuming the insurance agencies' liabilities and their responsibilities, but we are committing to assist them in the unlikely event that they need assistance.

At the present time, the Treasury line of credit to the FDIC fund is $3 billion and to the FSLIC fund is $750 million. There seems to be little question as to the adequacy of the FDIC line of credit, and the Administration cannot now foresee that even the FSLIC will have any need to draw on its line of credit. Even after merger assistance, the FSLIC insurance fund balance at the end of 1981 was $6.3 billion, as compared to $6.5 billion at the end of 1980. The fund appears to be adequate for presently projected needs and certainly any likely rate of utilization will be slow enough to permit due reconsideration by Congress and the Administration of any need to expand the backup line.

Income Capital Certificate Program

To the extent that specific assistance is required to alleviate temporary net worth problems for those members of the industry that otherwise are viable, we believe that Federal agencies have the authority and means to furnish such assistance under current law. We believe the recently developed FSLIC Income Capital Certificate (ICC) program shows that adequate relief can be provided. The ICC is a security issued by savings and loan associations to the

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FSLIC in exchange for an FSLIC note, which provides the issuing association with net worth. These FSLIC notes do not require the use of cash except for interest payments, and therefore have only a limited Federal budget impact. There would be an additional budget expenditure only if the notes were required to be paid off in cash to an institution, which, given the adequacy of the industry's cash flow, is extremely unlikely.

Already the FSLIC has used ICCs on four occasions to adjust net worth in connection with the merger of certain troubled institutions, and we understand that they will be using the program more extensively in the future. In our opinion this is exactly what is needed to accomodate thrift institution net worth problems.

H.R. 5568

Mr. Chairman, although we remain committed to working together with you in addressing the problems that prompted Chairman St Germain to introduce H.R. 5568, our objective is to obtain a solution to thrift industry problems that will minimize the cost to the Government and maintain the framework in which depository institutions have been able to serve the needs of their communities and the nation at large. We have examined H.R. 5568 carefully and have concluded that it is unnecessary. Moreover, we believe that certain parts of it would in fact harm the thrift industry.

Under the current regulatory system the responsibility for maintaining solvency and ensuring profitable operation of

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thrift institutions resides first with the institutions themselves. The Federal insurance agencies share responsibility for insured deposits and so they assume a supervisory role in assuring that, by their own standards, an institution is operating so as to protect the integrity of insured deposits. Mandating that institutions operating with losses automatically qualify for restoration of net worth to some arbitrary level absolves both the institution and the agency of a substantial portion of their responsibility for protecting the income stream of the institution. Providing continuing replenishment of subsequent earnings losses further constrains the insurance agencies from taking corrective action they may deem necessary.

The Federal deposit insurance agencies are experienced in adapting their current range of remedial measures to individual institutions that are quite different with respect to financial structure and outlook, competitive market position, and other relevant factors. A rigid legislative assistance program with fixed terms can not be developed to meet all the circumstances the regulators encounter. H.R. 5568 is addressed to a broad financial need, but it does not provide sufficient flexibility to the regulatory agencies, flexibility necessary for ICC structuring features such as eligibility, repayment terms, yield, level of net worth restoration, and treatment of future asset growth. Trying to make some statutory rule a common denominator will result in an inefficient and possibly damaging program.

With regard to its specific focus on housing, it is

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not clear to us that H.R. 5568 will generate additional funds for home building. Moreover, we are concerned about the specific requirement that 50 percent of an institution's net new deposits be used to issue mortgages at a rate of interest not more than one percent greater than the average cost of funds for the institution. This provision would further exacerbate the earnings and net worth problem of the institutions the bill is designed to help. In November 1981, insured savings and loan associations were earning 10.40% on their assets and paying 12.04% for their funds. Charging no more than 1% greater than average funds costs would not close the earnings gap, but more importantly, it probably would not even cover the cost of the funds used for the loans because new funds now cost more than the average. The Money Market Certificate (MMC) ceiling rate for March 16-22 was 13.2% and the ceiling rate for thrift Small Saver Certificates (SSCs) was 14.1%. Over half of the savings and loan industry deposits are held in MMCs and SSCs, and another ten percent of deposits are held in large certificates of deposit with no ceilings. What is accomplished when savings and loan associations must pay 14% or more for new money but can charge only 13% for the loans made with those funds?

In addition, I would point out that savings and loan institutions are continuing to invest principally in housing. During 1981 the net increase in mortgage loans outstanding at savings and loan associations contributed to 46% of the total increase in savings and loan association assets.

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Increases in mortgage backed securities were another 18% of the asset increase. As a result, mortgage related investments continue to constitute more than half of the total increase in assets even at a time when savings and loan associations might naturally try to arrange for greater diversity in their portfolios. H.R. 5568 would have had no effect over the past year, since there were no net new deposits and therefore no funds to which H.R. 5568's investment requirements would have applied. Even if interest credited were included in the definition of net new deposits, as we believe it should be, only $6.7 billion in housing investments would have been required in 1981. The $20.8 billion increase in mortgage loans outstanding and mortgage backed securities was triple the size of this deposit increase.

All of this leads me to conclude, Mr. Chairman, that H.R. 5568 does not advance our mutual objectives. Assistance to troubled depository institutions provided in the bill is not likely to be greater than that available through existing programs, and indeed the reinvestment requirement may be harmful to thrift institutions. We should observe carefully as the insurance agencies exercise existing authority and expand their use of the ICC program, rather than attempt to revise their authority before it becomes apparent that they need our assistance.

In summary, we believe that the thrift industry can successfully weather the current adverse economic environment. It will need some help, but the wherewithal for that assistance

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is already available from the FDIC and FSLIC. If additional money or powers are needed by the agencies, the Administration will join the Congress in responding to that need. In the meantime, we should encourage the use of ICCs where appropriate and provide legislation supporting private solutions to the industry's problems, such as authorizing interstate and inter-industry mergers of troubled institutions, preempting due on sale clause prohibitions and preempting state usury ceilings.

Most importantly, we must remove the legal restrictions on thrift institutions' lending and investment activities as H.R. 4724 and S. 1720 would do. No public policy dealing with this industry would be sufficient if it did not attempt to deal with the industry's structural problems. The public must not be forced to cope with a troubled thrift industry and inadequate funds for housing everytime short-term interest rates rise.

* * *

Mr. Chairman, that concludes my testimony. I will be pleased to answer any questions the Subcommittee may have.

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Mr. ST GERMAIN. Thank you, Mr. Mehle. At page 2 I read:

As we discussed during my appearance before the full Committee last July, the fundamental problem facing thrift institutions is the structural imbalance between an asset portfolio dominated by long-term, fixed-rate, low-yield mortgage instruments and liabilities increasingly dominated by rate-sensitive, shorter-term deposit instruments.

No one can argue with that, but let us go back one step further. The fundamental problem that creates this fundamental problem is the fact that we have had, as you mention later on, a very protracted period—in fact, unprecedented in history—of interest rates that are unprecedented in history. Is that not the case?

Mr. MEHLE. That is right.

Mr. ST GERMAIN. At page 3 you state:

In addition, some regulatory officials and others concerned with the industry's condition have come to accept net worth declines below some arbitrary minimum level as automatically necessitating a merger or liquidation of the institution in question. In at least one state, a thrift institution may not pay interest on deposits if its net worth falls below a specified percentage of deposits.

Well, when that occurs that means you have to shut the institution down, don't you? People are not about to leave their money in an institution that does not pay interest on deposits.

Mr. MEHLE. That is correct, also.

Mr. ST GERMAIN. Right. Now, under the FSLIC there is a requirement, is there not, once—isn't there a trigger that occurs when net worth gets down to 3 percent?

Mr. MEHLE. Yes, the Federal Home Loan Bank Board has rules of its own under which it may take corrective measures with respect to institutions whose net worth has dropped to 3 percent or below, but it does not have to do anything as a matter of law.

Mr. ST GERMAIN. That is true. However, once an institution reaches that point, there then arise problems with repo's. By that I mean, those people who have large repo's in an institution that reaches that point say, well, gee, if the Federal Home Loan Bank Board says the red flag is up, we would be rather silly and imprudent if we did not conclude the red flag is up; and therefore, we will remove our larger deposits and our large repo's. Isn't that a natural sequitur that compounds and exacerbates the problem?

Mr. MEHLE. If such a withdrawal indeed happened, it certainly would. Over the course of the last several months, however, as a percentage of thrift institution deposits, large certificates of deposit have actually increased.

Mr. ST GERMAIN. But in an institution whose net worth ratio drops below 3 percent where the Federal Home Loan Bank Board says, hey, this is bordering on the dangerous, are you telling me that the CD's, large, jumbo CD's have continued to increase in that type of an institution?

Mr. MEHLE. Not specifically any institution.

Mr. ST GERMAIN. I would like to see an example of that, Mr. Mehle.

Mr. MEHLE. The examples of increases?

Mr. ST GERMAIN. In institutions that would fall below 3 percent, yes.

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Mr. MEHLE. Well, I can't tell you specifically about any paticular institution. The Federal Home Loan Bank Board no longer prepares a list of institutions that have 3 percent net worth or less.

Mr. ST GERMAIN. Well, when their financial statements are published, isn't that made public?

Mr. MEHLE. In some cases it may be; in others it may not. It depends on the corporate nature of the institution. Stock S. & L.'s do, but mutuals do not.

Mr. ST GERMAIN. If you are a sophisticated investor you can find out, can't you?

Mr. MEHLE. Absolutely.

Mr. ST GERMAIN. Right.

Mr. MEHLE. Absolutely. I do not want to dispute the fact that declining net worth is a bad thing. I merely want to make the point that declining net worth does not mean the institution is unable to continue to function.

Mr. ST GERMAIN. My colleague, Mr. Gonzalez says, well then, why all the mergers?

Mr. MEHLE. Why the mergers? Well, the mergers are taking place in some cases—and I think perhaps in most cases—because the regulators who have oversight over these particular institutions believe that under any set of circumstances, the unimportance or, let us say, relative unimportance of net worth notwithstanding, the institution ought to be merged because of its past practices, its prospects and the like.

Now, we have gone through, I think, the earliest phase of mergers with those institutions that have been right on the edge. That is to say, they have been the most troubled. I think that under any set of circumstances they probably would not have been given assistance by the regulators to keep their net worth at a certain level, but would have had the course taken with them that was taken.

Mr. ST GERMAIN. You are speculating really today. Do you have any hard evidence to that effect?

Mr. MEHLE. Well, I heard Mr. Isaac say so in his testimony just a moment ago, so I think that is pretty good evidence.

Mr. ST GERMAIN. Yes, I thought Bill Isaac supports this legislation.

Mr. MEHLE. Supports your legislation?

Mr. ST GERMAIN. Yes, sir.

Mr. MEHLE. I support the concept of your legislation, but, as I said, I do not think that H.R. 5568 is necessary because I think that the regulators right now have the ability to carry out the concept through the exchange of income capital certificates for notes of the FSLIC.

Mr. ST GERMAIN. Great. Let's discuss income capital certificates. Am I incorrect in the information I have received that the SEC is opposed to the use of income capital certificates where it applies to stock institutions?

Mr. MEHLE. I don't know the source of that, but I don't think that they are completely opposed to it. My understanding is not to that effect. It may be a question of proper disclosure.

Mr. ST GERMAIN. Well, we will have to delve further into that. I am given to understand that two accounting firms, Haskins & Sells

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and Peat Marwick Mitchell, have accepted or given their blessing to ICC's.

Mr. MEHLE. Yes, sir.

Mr. ST GERMAIN. Have they gone beyond, do we know? Are there some firms that have problems with it still?

Mr. MEHLE. I do not think that there is any firm that has any problem with it, as long as it is done in the way that has been conceived.

Mr. ST GERMAIN. In how many instances have they used ICC's to this date?

Mr. MEHLE. I think there are four that have been used by the FSLIC. Yes. As of the end of last year, the FSLIC had acquired $84 million of income capital certificates from four federally insured stock savings and loans in return for negotiable interest-bearing FSLIC obligations.

Mr. ST GERMAIN. Let me ask you this. You could take the opportunity, as did Chairman Pratt, to describe your legislation, how it is going to serve the problems of the thrifts in the future. It is not going to do them any good today, 6 months from now or 2 years from now, right?

Mr. MEHLE. Their immediate problem is the level of interest rates.

Mr. ST GERMAIN. Correct. And as I said to Mr. Pratt, I commended to him a trip to Rhode Island to discuss—not because I just happen to be from there but we have a nice, unique situation. Thrifts in Rhode Island, as of about 15 or more years ago, were allowed to open commercials as well in concert with each other.

Mr. MEHLE. Yes.

Mr. ST GERMAIN. In my discussions with the people in Rhode Island who have done this and taken advantage of it—and every thrift in Rhode Island has, indeed, taken advantage of it—it is 15 years later and they still have not been able to convince people of the fact that they do have commercial banking powers. The point being that it is a long, long road ahead once you give them additional powers before they have any real impact.

Mr. MEHLE. I agree. I don't know exactly how long the road is, but it is like the Chinese proverb: The journey of 10,000 miles starts with the single step. I think we need to do that.

Mr. ST GERMAIN. OK, I don't disagree with that. However, I see a situation up there where we have 1,000 S. & L.'s that are under dire circumstances. The added powers are not going to help those institutions even if they had received them a year ago. Resistance is going to come when interest rates come down. Now to tide them over between today, yesterday—and you recall a meeting in February of last year, 1981, where I expressed my concern to your Commander-In-Chief, the Secretary, about the plight of the thrifts.

So frankly, even if they received those additional powers back then, 2 days later, those institutions now in dire circumstances would still be in dire circumstances. Interest rates have to come down.

It is my feeling that we can assist many of those who have full faith and confidence in supply side economics, tight monetary policy, that interest rates are going to come down. And we keep being told hey, just hold your breath, it is right around the corner.

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This is why I have gone, incidentally, to net worth guarantee certificates rather than to actual cash so that we do not tinker with the deficit. That is too high as it is. We all recognize that. Given that, I have full faith and confidence that they will never have to cash one of these in.

Mr. MEHLE. So do I.

Mr. ST GERMAIN. So there would be no cost to the taxpayer, no effect on the deficit. And that being the case, we could improve the atmosphere up there as far as a great many people are concerned. Maybe we were talking to different people on Wall Street, but I am told that legislation such as I have introduced would go a great distance in reaffirming the confidence of those people on Wall Street so that they continue to invest in S. & L.'s.

Mr. MEHLE. Yes.

Mr. ST GERMAIN. And that is why I introduced the legislation, because I have confidence that you are going to succeed—you and the administration—in bringing interest rates down. And you know, it is all well and good to talk about mergers. Mergers are great.

I have had about 25 phone calls, however, this morning complaining about a merger that is occurring right now. I assume that perhaps you have heard about the complaints as well. I have a lot of New York colleagues on this committee, and colleagues who are not on the committee who are very upset.

But the point of the matter is that everytime you merger, you are taking away—and this is the basic philosophy that is the problem with the legislation that is over in the Senate—you are taking away or doing away with that local institution, and the fewer institutions you have overall, the less mortgage money there is going to be available. That is a sequitur that would be hard to argue against.

So that mergers are all well and good, but there are just so many healthy institutions that are healthy enough to take on an ailing bride.

But the other thing is that you don't have that local feeling or aura about that institution and a great many people are concerned that the housing finance—the amount of housing finance gets smaller and smaller with each succeeding merger. So we have to keep that in mind as well. I don't think that those people are all absolutely wrong when they express their concerns.

In my next round of questioning we will go the second chapter in this saga of housing.

Mr. Wylie?

Mr. WYLIE. Thank you very much, Mr. Chairman. Mr. Mehle, I think you may have a point in your statement here that H.R. 556 does not really address the broad problem of specific focus on housing in that it does not necessarily generate funds for housing. And I guess my question is, is there a way that we can do that by providing some kind of maybe lower interest rate money—or I don't know how we go about it—for the home buyer. That is the crux of the problem. That is the crux of the problem as far as—this could be the housing industry.

Mr. MEHLE. Of course, the thrift institution has been at the center of the funds delivery system for housing credit for the last

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several decades. And to the extent that the thrift industry is impaired in its financial wellbeing, then that delivery system will also falter. And that sort of thing is going on right now.

One of the difficulties is that the thrift industry has been virtually required to make long-term fixed-rate mortgage loans. It has not had the opportunity to hedge in any respect its short-term liabilities. If it had had that opportunity, we would not at this time be seeing people expressing concern about the thrift industry's wellbeing and some of those people, in expressing such concern, taking their funds out of the industry.

Instead, the funds would have stayed there and perhaps increased, although thrift institutions' ability to attract new funds is also a function of how much they can pay for the deposits in the competitive rate environment in which we have been living for the last several years.

So I think a healthy thrift industry which can be created by permitting additional asset powers is vital to getting more funds delivered to housing.

In addition to granting new asset powers to thrift institutions, which I recommend, Congress should preempt the prohibitions, which many States have, of due-on-sale clauses. These prohibitions prevent a lending institution from requiring the call of its loan at such time as the property which secures the loan is sold. I think that the due-on-sale prohibition is terribly pernicious because it locks in a thrift institution to a particular loan that cannot be adjusted up to market rates. Such adjustment would free up funds for housing, too. The purpose of due-on-sale clauses is to put the new home buyer more in the current market than in the past lower-rate market.

Now, as I know you are aware, there is a specially constituted cabinet level working group that is now deliberating upon the question of housing and flows of funds to housing.

Mr. WYLIE. I am aware of that. The housing task force is due to report back on the 31st on a suggested short-term solution, but it has reported back and recommended a long-term solution but I am not sure that we have time for the recommended long-term solution if we don't find some solution in the short term.

Do you have any notion as to what their recommendation might be?

Mr. MEHLE. I do not. I am not the Treasury Department representative on the staff. Secretary Regan is, of course, a member of that group. It is chaired by Secretary Pierce of HUD. I think their report is going to be prepared, as you say, at least by March 31, and I am not aware, by the way, that they have limited their scope simply to long-term measures.

Mr. WYLIE. They have put out a preliminary report recommending some long-term solutions. This group is the President's special cabinet task force. You were talking about the President's Housing Commission?

Mr. MEHLE. No; I was speaking of the specially-constituted Presidential working group at the cabinet level rather than the President's Housing Commission. But it, too, will be presenting a report and I am not sure which one of those is meant to come first, but they are both coming shortly.

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Mr. WYLIE. Well, let's hope they both come up with something fairly soon and that maybe they are in concert as to the recommendations. That would be helpful to us.

Mr. MEHLE. It would be helpful to everyone.

Mr. WYLIE. Are you familiar with Senator Lugar's buy-down interest rate bill?

Mr. MEHLE. I am generally familiar with it.

Mr. WYLIE. Are you for it?

Mr. MEHLE. Is the administration in favor of that particular bill?

Mr. WYLIE. Yes, I think that is it.

Mr. MEHLE. I would not want to preempt this President's specially constituted group because I know that proposal, among others, is part of those that they are deliberating.

Mr. WYLIE. I was going to ask that question first. I got sort of led into that.

Mr. MEHLE. I think that the response to the Lugas bill and to other such proposals will come out in a few days.

Mr. WYLIE. OK. You are saying, if I understand your testimony correctly, that we really don't need to do anything short term. The rules are there, the regulators have the tools, and that this is only a temporary blip.

Mr. MEHLE. Well, I hope it is only a temporary blip. Of course, the question is how long is temporary. We are looking for a decrease in interest rates. I trust and hope that the decrease will come soon, but I do believe that, in any reasonable framework, the FDIC and the FSLIC can treat those institutions which they believe should be assisted, particularly through the income capital certificate approach.

Both of the insurance agencies have the power to do now what H.R. 5568 would provide, but they have a great deal more latitude than H.R. 5568 furnishes them.

Mr. WYLIE. I followed with you as you mentioned the income capital certificate program, and I know it has been there for sometime. But I don't sense that that contributes to the solution of the problem. That is just a kind of a shuffle game. That doesn't get any new money into the thrift institutions.

Mr. MEHLE. Neither does H.R. 5568, which provides essentially the same thing as the income capital certificate program, as I understand it. The one distinction that I perceive is that the thrift institution would receive a full faith and credit obligation of the U.S. Government rather than an obligation of the FSLIC or the FDIC, as the case may be. But in other respects I believe it to be the same.

Mr. WYLIE. Let me see if I understand this income capital certificate program. That is an exchange between the thrift institution that has a problem with the FSLIC for a note, but there is no use of cash, as you say, so it is really a bookkeeping transaction. It just simply says that we thought your net worth was such and such and today we think it is something else, though we have not reexamined the books.

Mr. MEHLE. It is not that the net worth would be thought to be something else. It actually would be something else. Once the thrift institution in question received an obligation of the FSLIC, then

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the capital and surplus account of that thrift institution would go up commensurately. So would the asset accounts.

It is a good thing to focus on this question of cash versus no cash, because I think that the distinction does shed a great deal of light on the present situation of the thrift industry and its ability to operate.

During the period from January 1981 to January of this year, thrift industry assets increased from approximately $620 billion to $654 billion. That means that they increased their cash and other assets—loans, mortgages, bank securities, plant and equipment and property—by an amount of about $34 billion.

Mr. ST GERMAIN. Would you break down the source of that increase?

Mr. MEHLE. The Federal Home Loan Bank Board News of February 26, 1982.

Mr. WYLIE. Where did the money come from, not the source of the information.

Mr. MEHLE. The source of the asset increases?

Mr. ST GERMAIN. Just mention the increases. Where did the increases come from?

Mr. MEHLE. I will just give you some of the sources of funds. Large certificates of deposit increased by a net amount of $7 billion.

On the other hand, and this is particularly important when you consider the DIDC's activities, deposit accounts with below market interest rate ceilings decreased from $103 billion at the beginning of 1981 to $99 billion a drop in 12 months of about $4 billion.

There was an increase of about $8 billion in 1981 in accounts other than large certificates of deposit: basically the money market certificates and the small-savers certificates.

Federal Home Loan Bank Board advances went from $46 billion to about $62 billion, an increase of about $16 billion.

Mr. ST GERMAIN. What was that?

Mr. MEHLE. $46.5 to $62.7 billion.

Mr. ST GERMAIN. The source of that.

Mr. MEHLE. The Home Loan Bank Board.

Mr. ST GERMAIN. What does that amount too?

Mr. MEHLE. That amounts to about $16 billion.

Mr. ST GERMAIN. Federal Home Loan Bank Board advances.

Mr. MEHLE. Other borrowings, which include gross retail purchase agreements of $50 billion, increased by $25 billion.

In other accounts, the net increase in 1981 was $13 to $15 billion. This increase is principally interest earned but not yet credited to depositors' accounts.

The above, taken together, funded the increase in assets. One can observe that not only was the increase in assets financed by funds inflows to thrifts, but so were the withdrawals. After all the withdrawals—and certainly we all recall that the thrift industry experienced a great deal of withdrawals during 1981—the assets of thrift institutions still increased $35 billion.

Mr. ST GERMAIN. $16 billion was advances for the Federal Home Loan banks.

Mr. MEHLE. There is nothing wrong with advances from the Federal Home Loan Bank Board.

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Mr. ST GERMAIN. I am not saying there is anything wrong, but I would not be overjoyed about it, but gee, you are saying the picture is rosy.

Mr. WYLIE. It is not a new source of funds, which is the point the chairman is making.

Mr. MEHLE. But of course the Federal Home Loan Bank Board is there for lending.

Mr. WYLIE. It is another shuffle.

Mr. MEHLE. But its function is to make loans.

Mr. WYLIE. Yes, OK.

Mr. MEHLE. I might add that during the 12 months of 1981 there was a net deposit gain, after interest credited, of $13.4 billion.

Mr. WYLIE. I think the point there, Mr. Mehle, is that it does not seem to contribute all that much. Those figures sound pretty good, but it does not seem to contribute all that much to the solution of the problem of the thrifts. It just is exchanging notes between themselves and within the industry.

Mr. MEHLE. But why not? If the thrift industry's assets are increasing, it is making more loans. Now it may not be making as many loans as it made in 1980, for example, when net deposit increases were $40 billion instead of $13 billion, but it is still not in a situation where its asset base is shrinking in the way that, for example, one of the other entities assisted by the U.S. Government was shrinking. I am speaking of Chrysler, the condition of which, fortunately, has gotten a bit better.

What I am trying to point out here is the divergence between thrift earnings and thrift cash flow. We should all be very grateful for the fact that thrift cash flow remains positive and that the industry is continuing to make new loans.

Mr. WYLIE. I agree with that and this is an oversimplification, but you have mentioned the DIDC action on Monday as action that will help.

Mr. MEHLE. Right.

Mr. WYLIE. Well, now, that will provide a new marketing instrument, something that they can talk about and sell to customers in the marketplace. That is what I have in mind. You really think it will help, obviously. I mean, you are supporting the Treasury position on it.

Mr. MEHLE. Yes. I think both of the actions taken by the DIDC will be helpful. One, of course, was to remove the ceiling on accounts with maturities of 3½ years and over, which on average in 1981 had been on the order of 7 percent, considerably beneath market levels. This is a very beneficial action because it means that thrift institutions, to the extent they desire, can obtain long-term funds and thereby be able to match more closely longer-term mortgage loans and investments. Obviously they cannot capture any long-term funds if they are only going to offer 7 to 8 percent, as they do right now on fixed rate time deposits of 4 years and over.

The other action that was taken—and I know you have discussed it with Mr. Isaac, who voted against it—was the adoption of a 3 month, $7,500 account with a 25-basis point differential in favor of thrifts. It was a conscious decision to give the thrifts some assist-

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ance in light of the fact that they have not been able to obtain the asset powers that have been long hoped for, particularly in S. 1720.

Mr. WYLIE. Well, it seems to me that we can do one of three things here. We can provide money to keep these institutions in existence on a short-term basis, maybe all but the very worst. Or we can provide many of the institutions or provide for a merger of many of the institutions, which they are doing right now.

Mr. MEHLE. Yes.

Mr. WYLIE. Or we do not need to do anything. It seems to me as if that is pretty much where you are coming out.

Mr. MEHLE. No. I am really in favor of the first two together.

Mr. WYLIE. Well, that will be reassuring to the S. & L. people.

Mr. MEHLE. I think that what the regulators are doing right now and what they propose to do are the right courses of action. I believe that we are in complete harmony on the direction which they are taking.

Some thrift institutions and some commercial banks are candidates for merger, and probably should be merged, under present circumstances.

Then there is another whole set of thrift institutions that has been victimized by the mismatch of their long-term assets and their short-term liabilities and that, through no fault of their own, find their net worth declining—not their cash flow but their net worth. Then they sometimes confront an automatic requirement of either merger or liquidation if their net worth gets to such and such a level.

Now in those cases it seems to us that the regulators have every reason to want to give financial assistance to increase the net worth of those institutions to prevent them from being closed automatically. This net worth assistance can be furnished through the use of income capital certificates, which in all respects except the full faith and credit of the U. S. Government, are very similar to the instrument contemplated by H.R. 5568.

Mr. WYLIE. And you regard that as providing money in my three categories.

Mr. MEHLE. I would regard use of an income capital certificate as a capital infusion.

Mr. WYLIE. Is there any way of knowing how much money we might need to provide—put "money" in quotes there?

Mr. MEHLE. I have a thought for you: For 1981 my understanding is that if all thrift institutions whose net worth declined below 3 percent of assets during the year were to have been given income capital certificates equal to about one—half the decline throughout the year, the aggregate amount of income capital certificates required would have been something like $1 billion. The interest expense on those income capital certificates, which is a budget outlay because it is cash going to them, would have been something like $80 to $100 million, depending on the interest rate that they bore. But that gives you some idea of what could be done in order to keep the most troubled thrifts at a level of net worth that was deemed appropriate.

Mr. WYLIE. Thank you. You have given impressive testimony. Thank you, Mr. Chairman.

Mr. ST GERMAIN. Mr. Gonzalez.

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Chairman GONZALEZ. Thank you, Mr. Chairman.

I am not going to ask any questions. I think it is a futile exercise. After last July, you will remember, in the appearance of Mr. Mehle with Pratt—well, following Pratt—I was so exercised that I was even urging you to subpena the Secretary of the Treasury. It is still contradictory.

I am not going to go through this exercise in futility of asking questions. The only thing is that I want the record to show my unbounded admiration for the competence of witnesses like this and some others from the economist field because by golly, they are the only ones I know that can match the Marxist dialectician in the ponderous presentation of semantic nuances that reveal tremendous assets in use of the language. On the capitalist side I have only seen it here from these sources and from the State Department. [Laughter.]

And that leaves us with competition to the Marxist dialectician—the only competition. I am not going to ask any questions. I think anything asked would be futile.

Thank you.

Mr. ST GERMAIN. Relevant to the ICC's, were you able to hear Mr. Isaac express his reservations on the fact that he does not anticipate utilizing ICC's?

Mr. MEHLE. I was.

Mr. ST GERMAIN. So you have a little difference of opinion?

Mr. MEHLE. I think that his viewpoint, as I understand it, is perfectly legitimate. He believes that those institutions that he has had to deal with thus far—and I suppose those that he expects to deal with in the immediate future—should be merged under any set of circumstances. His statement is probably based on his insight into the management, the past business practices, the prospects, and so forth, of these institutions.

But also, as I recall, I heard him say that he and his staff had deliberated about a set of standards that might be used for an income capital certificate program.

I do not believe that he is foreswearing anything but perhaps as of now does not believe that there is any mutual savings bank that is a fit candidate for an income capital certificate. He does have a smaller universe to deal with.

Mr. ST GERMAIN. At page 7 of your statement you say:

> Providing thrift institutions with new investment and lending powers need not diminish their contribution to housing finance, however. Real estate lending is their area of greatest expertise and they are likely to continue expanding this activity.

That is what they tell us when they sit where you are sitting. Now we also had another set of witnesses, amongst them the realtors and the homebuilders. They are not buying that one.

Now how can we convince the realtors and the homebuilders, how do we convince them that the contribution to housing finance will not be diminished with the advent of additional investment lending powers being granted to thrifts?

Mr. MEHLE. I think we have to gain their understanding that unless the thrift industry is healthy—and it certainly is not particularly healthy now, although it is doing adequately—we cannot

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expect it to be able to function as a mortgage credit delivery mechanism.

One of the ways to make it healthy is to permit it to invest during times when housing loans may not be as attractive as investment in other capital-short sectors of the economy. Thrifts would be putting their capital to work, continuing to be able to garner funds in the marketplace in order to make investments at that time when a compelled line of business might have a relatively low demand for funds.

If we continue to require the thrift industry to remain in a business which, although it may return to prosperity for a time, may once again encounter difficult circumstances, we will find ourselves inevitably coming back again and having to bail it out. Therefore, I think that we must try to explain to the homebuilders and the realtors that we are trying to strengthen an industry whose primary interest is in delivering mortgage credit, which I think it will stick to.

Mr. ST GERMAIN. I just asked the question because you have not convinced them yet. That was a week and a half ago, so you have a lot of convincing to do.

Mr. MEHLE. Yes.

Mr. ST GERMAIN. On page 7, at the bottom, of your statement—interindustry mergers—that is the regulators' bill is it not?

Mr. MEHLE. Yes. That element is in the regulators' bill. It is also contained in S. 1720 and H.R. 4724.

Mr. ST GERMAIN. The regulators' bill has that particular element?

Mr. MEHLE. Yes. There are also other provisions relating to FDIC assistance for failing insured banks. One is the removal of the condition to FDIC assistance that the continued operation of the failing bank is essential to provide adequate banking service in its community.

Mr. ST GERMAIN. That is 13(c). That is in the regulators' bill.

Mr. MEHLE. Yes.

Mr. ST GERMAIN. Have you expended any effort in trying to break the regulators' bill free and get that adopted?

Mr. MEHLE. We would like to see those elements of the regulators' bill that we endorsed included in a bill, such as S. 1720 or H.R. 4724, which gives the thrift industry increased asset powers and deals with the due on sale and the usury questions.

Mr. ST GERMAIN. OK, let's go to due on sale. How many votes do you have for due on sale?

Mr. MEHLE. How many votes?

Mr. ST GERMAIN. Let's be practical. Let us not talk about pie in the sky. How many votes do you think you could get in the House for the due on sale provision?

Mr. MEHLE. I cannot speculate. I do not know.

Mr. ST GERMAIN. You mean Treasury does not look at those things when they make proposals as to whether or not they are proposing something that is going to pass or do they just hope the tooth fairy is just going to leave it under the pillow?

Mr. MEHLE. It is, of course, a concern, but if we stopped every time we did not think we had enough votes, I am sure we would do virtually nothing.

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Mr. ST GERMAIN. Well, it is very tempting to have legislation enacted. Is it not important to determine what the strengths and weaknesses of that legislation are so that you have a little flexibility or that perhaps—you know, it is like the father who has a daughter who is not too attractive. He says well, gee, nobody is buying her this way. Take her to the beauty parlor and buy her some new clothes, take her to the exercise club or the health club.

Don't you think maybe you ought to go to the beauty parlor?

Mr. MEHLE. We are quite willing to go to the beauty parlor. We would like to see this come out marriageable.

I think one of our obligations, though, is to point up the very serious problem now facing thrift institutions: The fact that they are locked into their long-term mortgage loans and investments.

Mr. WYLIE. Would the gentleman yield?

Mr. ST GERMAIN. Certainly.

Mr. WYLIE. I might ask the chairman how many votes he thinks he has for his bill.

Mr. ST GERMAIN. I think that we will observe and see what happens as time goes by, but at least the chairman has proposed something that he feels is workable, that would be of assistance, and that should not meet with any wholesale resistance from any quarter.

Mr. WYLIE. You cannot tell at any one particular time exactly how many votes you might or might not have for a bill. I think you have made a valid point, though, that if you load up the legislative bill with some of these other controversial issues you are jeopardizing the canoe and that is the point you would like to make.

I would like to see them press for the legislative bill because they put a full court press on us to get it [illegible] passed by the House.

Mr. ST GERMAIN. Absolutely.

Mr. WYLIE. So we talk about due-on-sale [illegible]. You are going to get some opposition—[illegible]

Mr. ST GERMAIN. You are going to [illegible]

Mr. WYLIE. It is a group that is pretty [illegible]

Mr. ST GERMAIN. And then the many [illegible] you know, those mortgages.

Mr. MEHLE. That is right. It is a [illegible] doubt about it.

Mr. ST GERMAIN. That [illegible] particular

Pag[illegible] Even after [illegible] fund[illegible] at the end [illegible] $6.5[illegible] in insuring that scri[illegible] rating so as to protect [illegible] operating with losses [illegible] ask for more criteria [illegible] automatically qualify [illegible] rary level.

[illegible] list of suggestions that [illegible] they might have.

[illegible] troduced the legislation [illegible] what I said earlier this

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Mr. MEHLE. I do not think that the FSLIC does it that way. I will have to give you a record answer for that.

[Mr. Mehle subsequently submitted the following information for inclusion in the record:]

RESPONSE RECEIVED FROM MR. MEHLE

When a merger arrangement is concluded, the FSLIC credits to a liability reserve account the (undiscounted) dollar amount of all assistance estimated to be payable over time. At the same time, the fund balance (in effect, the fund net worth) is reduced by an equal amount. As cash is periodically required to meet these commitments, FSLIC assets are liquidated to make payment and the liability reserve is reduced. Not until that time, however, are fund assets decreased. (For the full calendar year 1981 the FSLIC committed to make future payments of about $861 million compared to a commitment of approximately $589 million by the FDIC. As stated above, these commitments will not give rise to cash outlays until future years).

Mr. ST GERMAIN. I read in the case of 28, for instance, thrift institutions they committed $1 billion, which is far beyond what FDIC is committing.

Mr. MEHLE. It was not cash, though.

Mr. ST GERMAIN. Pardon?

Mr. MEHLE. It was not cash.

Mr. ST GERMAIN. But it is what they have committed themselves to do, you see. Where do we get the drop from $6.5 to $6.3 billion. That is just $200 million, right, so. I do not think that they carry the same way or post the same way that FDIC does because that figure now would be $5.3 billion if they were to carry it the same way or post the same way FDIC does.

Mr. MEHLE. Well, you know, this is the size of the assets and what they do when they lay out cash is they take assets back, so part of their cash is—when they put it out, the fund is not decreased because in return for the cash they put out they receive assets.[1]

Mr. ST GERMAIN. They receive assets that are losing assets. They take those assets that are losing assets, do they not? They do not take the 12-percent mortgages. They take the 5-, 6-, and 7-percent mortgages.

Mr. MEHLE. I think that they work it out with the proposed buyer and generally they take the ones that are below market yield.

Mr. ST GERMAIN. Exactly. And they have worked out their costs. FDIC has worked out their costs, as has FSLIC, and the numbers I cite to you are those costs. Those are the costs. So, therefore, the FSLIC fund, I would submit, is indeed, if they were posting the same way as FDIC does, probably $5.3 billion instead of $6.3 billion.

Mr. MEHLE. Perhaps you are suggesting that these items should be marked to market, that the assets which they received should be marked to market.

Mr. ST GERMAIN. Well, shouldn't they be?

[1] Mr. Mehle subsequently submitted the following additional comment with his corrected transcript: The FSLIC fund balance was not reduced by the assumption of large commitments in 1981 because their cost was offset by income to the fund primarily from assessments paid by member savings and loan associations and from interest earned on investments in U.S. Government securities.

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Mr. MEHLE. I do not think so, because I expect them to stay in the fund indefinitely in the same way that the loans made by the thrift institutions themselves are not marked to market.

Mr. ST GERMAIN. So we merge another 150 institutions and instead of actual cash in that fund what they have a lot of is a lot of mortgages, but they indeed do not have market value. Then we have a failure and depositors want money. They want cash. They do not want promissory notes.

Mr. MEHLE. It should not happen that way. Let us say that the FSLIC provides $100 worth of assistance and receives a face value of $100 worth of mortgages, the market value of which might be $70. The FSLIC will book the mortgages at $100 rather than at $70, so there will not be an apparent change in the size of their assets.

Now what does happen, though, is instead of receiving current market rate on those mortgages which might be 15 percent in today's market, the FSLIC might be receiving only 9, which is the reason that the value of the mortgages is $70 instead of $100, but as far as the fund is concerned, it does not show a loss. It simply shows lower earnings, that is to say, 9 percent instead of 15 percent, and thus it would grow more slowly.

It is apparent from the fund decrease, though, that the FSLIC in 1981 did spend approximately $200 million in return for which it did not acquire assets.

Mr. ST GERMAIN. Well, there are those of us who are a little concerned about the adequacy of the fund if we do not take steps such as I have proposed. Obviously Treasury is not among those who have a concern.

Mr. MEHLE. No, we do not. We think the fund will be able to handle it.

Mr. ST GERMAIN. Page 11:

> Our objective is to obtain a solution to thrift industry problems that will minimize the cost to the Government and maintain the framework in which depository institutions have been able to serve the needs of their communities and the Nation at large.

I take it that you and I dispelled that sentence because we agreed that the interest rates are going to come down. If we were to use net worth guarantee certificates they would never be called and the institutions would be successful with the drop in interest rates and, therefore, there would be no cost to the Government.

Mr. MEHLE. Right.

Mr. ST GERMAIN. So that we can do away with that particular sentence or reference to cost.

Now the Federal insurance agencies share responsibility for insured deposits, so they assume a supervisory role in insuring that by their own standards an the institution is operating so as to protect the integrity of the insured deposits.

The bill does not mandate that institutions operating with losses automatically qualify. It is not automatic. We ask for more criteria today from the insuring agencies. They do not automatically qualify for restoration of net worth to some arbitrary level.

We also have asked them to give us a list of suggestions that would answer that particular problem that they might have.

I would reiterate what I said when I introduced the legislation and what I have said here in hearings and what I said earlier this

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morning. Legislation was introduced hoping that we would get constructive suggestions to improve it and to be certain that it is effective legislation and does not throw out good money after bad, for instance. That is not our point.

Now let's look at the supervisory role and mergers and all of that. I am sure you are aware of the fact that there are many who contend that the insuring funds have been used not to protect the funds of depositors but rather to, in many instances, protect funds of those people who have deposits in them over and beyond the $100,000 limit.

Mr. MEHLE. Yes.

Mr. ST GERMAIN. And I would venture to say that there is probably some validity to that argument because indeed I can just recall economy in recent months, in Chicago where they just shut the place down. Other than that, FSLIC indicates that in the case of S. & L.'s they have been injecting funds in effective mergers where they have made commitments.

As a result thereof, stockholders, in the case of stock institutions, and jumbo CD holders have been protected. Is that not accurate?

Mr. MEHLE. When a merger takes place, the account holders in the institution that has been merged out of existence generally remain whole. They are creditors of the succeeding institution.

Mr. ST GERMAIN. Exactly. So they are protected over and beyond the $100,000 insurance protection that is provided for.

Mr. MEHLE. I think there is almost no other way to do it if you have a merger.

Mr. ST GERMAIN. True. The point is that mergers and the causes of many mergers have indeed assisted or been beneficial to people who have had deposits beyond the $100,000.

Mr. MEHLE. Yes, they have been.

Mr. ST GERMAIN. Sure the merger route is a good one in many instances, but by the same token, if you can keep the acquired institution whole with the net worth guarantee certificate and assist it to remain in business, and to continue to serve the community wherein it is located, I think that is a point that has to be considered.

Mr. MEHLE. I totally agree. It is something, though, that requires a great deal of discretion.

Mr. ST GERMAIN. Oh, very definitely. Incidentally, again this morning we have stated that we want assistance from the agencies because they are the experts so that we do not go out and assist institutions that have no chance of surviving. That is not the point of the legislation, not by any means. I would be the last one to write anything of that sort.

As to the income capital certificates, have you projected or do you have any projections or studies, or maybe the Home Loan Bank Board does, of how many institutions they can assist in that manner?

Mr. MEHLE. How many they might have to assist?

Mr. ST GERMAIN. What their capacity is to assist? Does that have an effect on the funds in the insuring fund?

Mr. MEHLE. Well, the ICC is the instrument that the S. & L. issues to the FSLIC and, as to the FSLIC, the ICC becomes an

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asset. The FSLIC gives to the institution in exchange a note of its own, and that becomes a liability of the fund.

Mr. ST GERMAIN. OK. So my question is: When we look at the size of the fund at the end of 1981, were any of those ICC's issued last year?

Mr. MEHLE. Yes, sir—approximately $84 million at yearend.

Mr. ST GERMAIN. Those notes, how are they carried? Does that $6.3 billion include those notes as an asset?

Mr. MEHLE. I believe you mean the ICC's, which are what the fund receives. Yes, the ICC's should be included as fund assets.

Mr. ST GERMAIN. So in essence the fund is $6.216 billion if you have got $84 million out in those notes.

Mr. MEHLE. If you regarded the ICC's as valueless assets, it would be. But the FSLIC does not regard ICC's as valueless assets.

Mr. ST GERMAIN. You know, on page 14 you express concerns about the requirement for money to be reinvested in mortgages at low rates because they have made more than that. They have exceeded that percentage, even last year.

Mr. MEHLE. Right.

Mr. ST GERMAIN. When there were those who complained about that requirement, my answer was, "Gee, they have exceeded it so you should not have any problem with it." I sort of agree with you. I think you have sustained my argument on that one to those who quarrel with that requirement.

Right now, on page 15 you say, "Well, if a need comes, we will get together—the agencies, the administration, and Congress—and we will fulfill the need to prevent the problem." In the meantime, we should use ICC's and provide legislation supporting private solutions to the entity's problems such as authorizing interstate and interindustry mergers.

Better talk to the State bank supervisors on that one. We met with a buzz saw, preempting, due on sale again. Boy, I have not had any Members come up to me and say that they are all excited about that one, and preempting State usury ceilings. That is a bit of a problem as well, sir—very definitely—and many Members feel hey, let the States do that. Why should we do it for them?

I just pointed out that that legislation has a lot of—you know, it is like the Toonerville Trolley trying to pull the Orient Express. You are going to have to sort of look at that luggage and baggage and what have you that is appended and start negotiating a little bit and maybe then we can start doing something on this side as well.

Mr. Mehle, obviously, you did not come here in full support of the legislation that I have introduced and shall reintroduce, but let's assume that despite those feelings, it did move along.

There is a possibility that this legislation might move along and given that possibility I really would be appreciative if Treasury were to be kind enough to do us as Mr. Isaac and Mr. Pratt are going to do and provide us with suggestions for perfecting legislation.

You mentioned some problem areas in your testimony and rather than just tell us what you think is wrong with it, tell us how you feel that we could correct it. I think Treasury has very

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adequate, competent staff that might work on this so that at least we can consider your suggestions when we consider the legislation.

Mr. MEHLE. We would be glad to do that. Of course, you understand that our view that it is not a necessary piece of legislation also includes the view that the approach embodied in the legislation is the correct one. We do not have any trouble with the approach; we just believe that it is already within the powers of the agencies to carry out, with the limited exception of the nature of the obligation. It would not be a full faith and credit obligation of the U.S. Government. It is the full faith and credit obligation of the FDIC or FSLIC.

Mr. ST GERMAIN. Well, again, you know, in consultation with members of the industry who I feel are very responsible individuals—incidentally, these are people that would not be participating because their institutions are not in a situation where their net worth is anywhere near or will be anywhere near the area of the 2-percent breaking point in the foreseeable future.

So they were speaking in an advisory capacity.

Mr. MEHLE. Yes.

Mr. ST GERMAIN. And, very frankly, they felt that this legislation would be most helpful to many institutions because, again—and I hate to say this being a Rhode Islander who has worked in a mill—but I have got to quote. They felt that Wall Street and the large depositors would feel much more comfortable if there were a net worth guarantee certificate for which funds were appropriated but with no outlays and with the money there available from Treasury if the occasion arose.

Of course, we agree that that will not arise because interest rates are going to come down. We are just going to assist institutions with this net worth guarantee certificate that have a very reasonable opportunity to survive until such time as the interest rates come down.

So that is why I sort of differ with you as to the relative merit of the ICC and the net worth guarantee.

Mr. MEHLE. Yes.

Mr. ST GERMAIN. I did not dream these things up, Mr. Mehle. I came up with this legislation after a great deal of consultation, a great deal of study, and a great deal of discussion with people around the country, and again I felt that we had to make it clear to the homebuilding industry, to the prospective home purchaser, and to those who feel that we should not just let the S. & L. industry go down the tube that we do care and that we feel that steps should be taken, and it was just incidentally happenstance that the legislation was introduced at the same time the Brookings report came out. I had no idea that those were going to happen in conjunction with each other.

Are there further questions?

Thank you very much for your testimony. We will look forward to constructive suggestions.

Mr. MEHLE. Thank you very much, Mr. Chairman.

Chairman GONZALEZ. The subcommittee will stand in recess until tomorrow morning at 9:30 in this room.

[Whereupon, at 1:23 p.m., the subcommittee recessed, to reconvene at 9:30 a.m., Thursday, March 25, 1982.]

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HOUSING AND URBAN-RURAL RECOVERY ACT OF 1982

THURSDAY, MARCH 25, 1982

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:37 a.m., in room 2128 Rayburn House Office Building; Hon. Henry B. Gonzalez [chairman of the subcommittee] presiding.

Present: Representatives Gonzalez, Oakar, Vento, and Stanton.

Chairman GONZALEZ. The subcommittee will please come to order.

This morning we have the first panel, consisting of the Most Reverend James Lyke, auxiliary bishop, Catholic Diocese of Cleveland, representing the U.S. Catholic Conference; Dr. M. Wendell Belew, director of Mission Ministries, the Home Mission Board of the Southern Baptist Convention; and Mr. Stephen Hoffman, the director of Social Planning and Research, Jewish Community Federation of Cleveland, and Mr. Henry Goodman, vice president, representing the Council of Jewish Federations, Inc.

Also Mr. Talisman, who needs no introduction, comes from our community here and has never really quite left it, even though he is officially not on the Hill.

I understand that Bishop Lyke has a time constraint and if there is no objection, and if the other panelists have no objection, we will proceed by recognizing the bishop first and having Mr. Stanton, his Congressman, and Ms. Oakar—oh, you are here. That is right.

We have—by golly, Bishop, you are covered all over the place.

Bishop LYKE. I feel quite secure, thank you.

Chairman GONZALEZ. Well, I am delighted to recognize the gentleman from Ohio, Mr. Stanton, and then Ms. Oakar.

Mr. STANTON. Thank you very much, Mr. Chairman. I think it is already obvious that we are all trying to get on the bandwagon because the bishop is certainly extremely well liked and, above all else, highly respected in our Greater Cleveland Diocese, of which Mary Rose and I are from.

Equally so, Mr. Hoffman and his federation are very distinguished members of the Greater Cleveland area, and I say that before I yield to Mary Rose because we in the country have always had a little complex, you know. It was Cleveland this, and Cleveland that all of my life, and so finally people like yourself, the federation and others are referring to the Greater Cleveland area.

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So I welcome you and am very pleased that both of you are here today and am happy to yield to Mary Rose. You see where the power is here, by the way.

Ms. OAKAR [presiding]. Thank you, Mr. Chairman.

I want to join my colleague, Bill Stanton. You know, Mr. Goodman, Mr. Hoffman, Bishop Lyke—and, of course, Mr. Belew, we are happy to have you here—you get people from different sides of the aisle from an area that is so absolutely proud of the beautiful work that is done in the Catholic diocese and the multiplicity of services that are offered at the Jewish Community Federation, which is so highly revered in our area.

It is a special honor to have you here and I think it is really wonderful that you are here because Congress needs to hear from people like yourselves who are really involved daily with the grassroots level and the problems that face our country. You all have such beautiful reputations.

You know, Bishop Lyke had the mass, St. Patrick's, at my parish, on St. Patrick's Day. It was just a beautiful service and, of course, I saw him taking notes when another bishop, Bishop Cosgrove, gave the sermon concerning the human needs of the people of this country.

I think that is what it is all about, so I am especially pleased and want to thank the chairman for graciously extending the chair to myself and our minority leader here, Bill Stanton, in welcoming all of you today.

Bishop, you may proceed in whatever way is most comfortable for you. Your statement will be submitted for the record, if you would like.

STATEMENT OF THE MOST REVEREND JAMES LYKE, AUXILIARY BISHOP, CATHOLIC DIOCESE OF CLEVELAND, OHIO, REPRESENTING THE U.S. CATHOLIC CONFERENCE

Bishop LYKE. Thank you very much. Let me just say before my formal testimony how appreciative I am of your kind words and even more appreciative of the support that both of you give to us as we in the diocese of Cleveland try to meet the needs of our people.

Congresswoman Oakar, I am Bishop James Lyke of Cleveland, Ohio. I am pleased to appear before you on behalf of the U.S. Catholic Conference, which is the national social action arm of the Roman Catholic bishops. We thank you for the invitation to share with the committee our concerns about the housing needs of low-income people.

May I add that from a personal point of view I have a keen interest in this question of housing. I grew up on the south side of Chicago and lived for a time in a dilapidated shed as a child. Since my brother was in the U.S. Navy and since my mother was on welfare and separated from my father, the family was given priority consideration to move into Wentworth Gardens projects, a dwelling constructed with Federal moneys for low-income families.

Needless to say, to move from what we called the "shed" to a Government project was the height of upward mobility. More importantly, however, the decent surroundings of these projects fos-

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tered a sense of dignity and worth that we had never had in our former house.

Further, because we realized that our new home came to us from the Federal Government and because of my brother's service in the Navy, we grew up with an attitude positive toward our Government and developed a sense that the Government cared.

Congresswoman, I speak this morning not as a housing expert or as a policy technician but as one who is concerned about the moral dimensions of national housing policies. The dignity of the human person is the moral base from which I speak.

The church's concern for housing stems from the belief, from the basic belief, that each individual possesses an inherent dignity because he or she is created in the image and likeness of God. Each person should have the opportunity to grow and develop his or her potential to the fullest extent possible. This development is threatened whenever social and economic forces dehumanize or degrade people.

In this context we should not ignore the impact that poor housing has on human dignity and development. The physical and social environment play important roles in the formation and development of the human person. We must not overlook the terrible impact that degrading and indecent living conditions have on people's perception of themselves and their future.

The U.S. Catholic Conference recognizes that decent housing is a basic human right, yet millions of families who live at or below the poverty level face a desperate housing crisis, one which we believe will be exacerbated if the administration's budget proposals are adopted.

The present housing crisis is attributable in part to the severe recession and inflation that characterize the economy. However, there has been a serious housing problem throughout the last 30 years, a time when we have experienced unparalled prosperity. The problem has persisted in both good and bad economic times.

While it is obvious that current economic difficulties have greatly intensified housing problems, it is important to emphasize that we cannot rely on economic recovery alone to meet our housing needs. Poor people need decent housing which is affordable. This obviously requires an adequate supply of housing at costs within the means of low income people.

The President's Commission on Housing recently identified 10 million renter households, one-fourth of whom are living in assisted housing, who require assistance if they are to live in decent housing at costs they can afford. In Cleveland more than half of all households in the city qualify as lower income according to HUD's criteria. Most of these households must choose between substandard living accommodations or spending an inordinately high percentage of income for decent housing.

The biggest problem for millions of low income citizens is the financial burden of paying the rent. The poor pay a disproportionate amount of their income on housing. The median income for all renters who spent more than 35 percent of their income on rent in 1977 was only $4,000. By contract, 62 percent of renters with incomes of $35,000 or more spent less than 10 percent of their income on housing.

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Rising rental costs are especially burdensome on people who subsist at the poverty level and who confront rising prices and diminishing resources in meeting all of their basic necessities.

Across the country there are hundreds of thousands of people waiting for decent shelter. The severe housing shortage is worse with regard to rental units. Indeed, we are gradually witnessing the disappearance of private low-rent housing. Rents in the private market are beyond the reach of low-income Americans.

According to the National Low Income Housing Coalition, there is a net loss of over 500,000 low-rent units annually due to inflation, conversion, abandonment and other causes. Although eligible for federally subsidized housing, most low income households are not able to obtain subsidized housing because so little is available. There are at least five times as many eligible households living in bad housing or paying more than they can afford.

In order to realistically meet the need, we believe that a minimum of 600,000 additional units should be provided annually. In Cuyahoga County, for example, where Cleveland is located, 112,214 households were in need of housing assistance in 1980. At the same time, however, only 631 units were allocated to new construction in the county in 1980.

Stated differently, the 1980 allocation of section 8 new construction met only 0.56 percent of the documented housing needs. In short, production of low-income housing must be significantly expanded to insure an adequate supply. Income supports alone will not solve the problems of supply.

Public housing provides shelter for over 3 million people whose median income is approximately 27 percent of the national median income. In Cleveland, the local public housing authority is the landlord of 8 to 9 percent of the city's population—approximately 45,000 people. The average annual income per household as of December 31, 1980, was $3,330. According to the December 31, 1981, Cuyahoga Metropolitan Housing Authority, the waiting list was 2,431 families.

It is vitally important that this housing be adequately maintained. Modernization of the existing stock is an immediate concern and must be given high priority, for unless modernization is accomplished, the operating costs associated with high energy bills and depressed maintenance will continue to rise. Similarly, if operating subsidies are not adequate, cutbacks in services and maintenance will result in either deterioration or in demolition and the consequent displacement of the poor.

Last year's budget cuts have intensified the shelter needs of the poor. In reports from individual bishops, from Catholic charities agencies, from inner city pastors, from organizers of self-help programs for the poor, from the housing organizers and volunteers in parishes we in the church have heard essentially the same message: The cuts have hurt the poor severely.

We know from our experience around the country what the impact has been. We know because those affected by the budget cuts are showing up on the doorsteps of Catholic parishes and Catholic charities agencies. An ever-growing number of people are homeless.

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Last month, for example, the doors of Holy Ghost Church in Denver were opened at night because it was anticipated that 30 or 40 people needed emergency shelter. Within a month, the numbers have swelled to hundreds of homeless men, women and children who are now sleeping in the pews of the church.

In the Archdiocese of St. Paul-Minneapolis a woman, knowing of the lack of adequate shelter for the homeless, left a stack of blankets in an unlocked car over night. The next morning she found four adults sleeping inside, huddled together against the cold. Here in the Archdiocese of Washington, shelters are filled to capacity. For the first time we are seeing not only the chronically destitute but as many as 50 percent of those seeking shelter are unemployed young black people.

For the last 6 months Catholic Family Services in New Haven, Conn., has been seeking housing for a woman with five children who has a section 8 certificate. This case is repeated across the country. It is increasingly difficult to find affordable rental units for large families, especially women with children.

We also know of the need for housing because in some areas innovative housing programs sponsored by church-supported groups have been terminated. In the Archdiocese of Baltimore, the St. Ambrose Housing Aid Center, an affiliate of the local Catholic Charities, has been in the business of providing homeownership and rental units for poor families. In an innovative undertaking that has combined the existing section 8 rent subsidies with section 312 rehabilitation, St. Ambrose has renovated hundreds of gutted single family houses and has rented them to the working poor who earn from $5,000 to $10,000 a year.

This successful rehabilitation program was abruptly halted with last year's elimination of the section 312 rehabilitation program. Combining State loans, urban development action grant moneys and existing section 8, St. Ambrose has recently converted a school into rental units with three and four bedrooms—one of the few places in the country with units that large which are available to the poor. The project leaders, however, fear that this project too will be jeopardized if the administration's new proposals are adopted.

I could go on with a long inventory of examples, but the message would be essentially the same. The already severe housing needs of the poor are being made even worse as a result of last year's budget cuts.

As a Catholic bishop I have listened carefully to the suggestions that the voluntary sector and the churches in particular can and should take up the slack caused by the budget cuts. This suggestion that private charity can increase sufficiently to make key Government programs unnecessary ignores both history and reality.

From a practical standpoint, it is simply not within the realm of possibility to suggest that the voluntary sector can replace major and necessary Government programs. This suggestion is even more unrealistic in the area of housing. Certainly the churches will continue to increase their efforts and resources to aid the homeless, but we cannot by ourselves fill the massive gap in low-income housing needs that already exists and is intensifying.

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While the charitable activity of religious institutions is increasing and will continue to increase, it cannot and should not substitute for the essential responsibility that Government has to play in meeting basic human needs.

The essence of the message I would like to leave with you has to do with human rights and the role of Government in guaranteeing and protecting those rights. The Catholic tradition views basic human rights as a kind of base line, a set of material conditions which are essential for human dignity.

The church fully recognizes the significance of classifying shelter as a basic right, for rights are not matters of privilege or choice. They imply an obligation on the part of society, an obligation that ultimately rests on Government. When through the normal workings of the economy and the social system the basic material needs of some citizens are not met, the Government has the responsibility to intervene. It has the duty to see that no one goes without adequate housing.

The harsh reality of our present economic system is that without substantial and effective governmental intervention people will go without shelter. We believe that the Federal Government has the ultimate responsibility to see that this does not happen. When we talk about the implications for public policy, then, we are not speaking of housing as a matter of largesse or charity. Rather, it is an issue of basic social justice.

In the context of the basic principles of human rights which I have referred to, the administration's fiscal year 1983 proposed budgets in the area of assisted housing are simply not acceptable. They represent a retreat from a longstanding bipartisan commitment to meeting the housing needs of the poor and a large scale abandonment of Federal responsibility in low-income housing needs.

If enacted, the proposals would have the effect of either reducing or eliminating programs on which the poor depend for their basic housing needs. In terms of budget authority, the housing cuts constitute the largest reductions proposed for any activity of the Federal Government. Therefore, they come on top of the large-scale retrenchments adopted last year. In short, these cuts will aggravate the already desperate housing plight of the poor. They should be firmly rejected.

Our testimony highlights several areas of concern that we have with the administration's housing proposal. For the sake of time I will not go through the specifics, but I ask that they be included for the record.

In conclusion, let me add that the Catholic Church, when it enters the arena of public debate, is not neutral. It enters with an explicit and conscious advocacy on behalf of the poor. In the tug and pull of the political process, poor people are not likely to win out. They do not have much power and they are without powerful political allies and lobbying networks. They do not contribute much to election campaigns and they do not vote as much as the rest of the population.

The Nation's current economic and budgetary problems are obviously very serious, but these problems can and must be solved without punishing the poor, without violating their rights to basic

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necessities. In the Christian tradition, how we treat the poor is seen as a measure of our religious faith. I believe it is also a measure of our health as a nation and our wisdom as a people. In housing problems, policy in particular, we face problems which will require difficult choices.

In closing, I wish to emphasize that the debate over housing programs, as well as the larger debate over the Federal budget, is not simply a debate about numbers and dollars and programs. It is about human beings—children, parents, the elderly, their joys and sorrows, their successes and failures, their hopes and dreams. It is about American families, about whether or not they will have enough food on the table, enough income to support them, a roof over their heads.

It is, in short, a debate about human dignity.

[The prepared statement of Bishop Lyke, on behalf of the United States Catholic Conference, follows:]

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STATEMENT OF THE

UNITED STATES CATHOLIC CONFERENCE

Presented by

Most Reverend James Lyke,

Auxiliary Bishop of Cleveland

Regarding

LOW INCOME HOUSING NEEDS

Before the

SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

of the

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

UNITED STATES HOUSE OF REPRESENTATIVES

WASHINGTON, D. C.

MARCH 25, 1982

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Mr. Chairman, I am Bishop James Lyke of Cleveland, Ohio. I am pleased to appear before you on behalf of the United States Catholic Conference, which is the national social action arm of the Roman Catholic Bishops. We thank you for the invitation to share with the Committee our concerns about the housing needs of low income people.

In 1975, in response to the national housing crisis, the U. S. Catholic Bishops issued an extensive pastoral statement entitled, The Right to A Decent Home. We said at that time:

> The United States is in the midst of a severe housing crisis. This is a broader, more pervasive and more complicated phenomenon than the customary photographs of urban slums and rural shacks indicate. It involves more people, more neighborhoods and communities than was thought the case even a few years ago. It touches millions of poor families who live in inhuman conditions. . . . Rising costs of shelter, maintenance and utilities . . . are forcing many families to live in inadequate housing or to do without other basic necessities.

This statement is still applicable today. Indeed the severity of today's housing crisis, particularly for the poor, is more alarming now than at any time in recent years.

In this context, I speak this morning not as a housing expert or a policy technician, but as one who is concerned about the moral dimensions of national housing policies. The dignity of the human person is the moral base from which I speak.

The Church's concern for housing stems from the belief that each individual possesses an inherent dignity because he or she is created in the

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image and likeness of God. Each person should have the opportunity to grow and develop his or her potential to the fullest extent possible. This development is threatened whenever social and economic forces dehumanize or degrade people.

In this context we should not ignore the impact that poor housing has on human dignity and development. The physical and social environment play important roles in the formation and development of the human person. We must not overlook the terrible impact that degrading and indecent living conditions have on people's perception of themselves and their future.

HOUSING NEEDS OF THE POOR

The United States Catholic Conference recognizes that decent housing is a basic human right. Yet millions of families who live at or below the poverty level face a desperate housing crisis — one which we believe will be exacerbated if the Administration's budget proposals are adopted.

The present housing crisis is attributable in part to the severe recession and inflation that characterize the economy. However, there has been a serious housing problem throughout the last thirty years, a time when we have experienced unparalleled prosperity. The problem has persisted in both good and bad economic times. While it is obvious that current economic difficulties have greatly intensified housing problems, it is important to emphasize that we cannot rely on economic recovery alone to meet our housing needs.

Poor people need decent housing which is affordable. This obviously requires an adequate supply of housing at costs within the means of low income people. The President's Commission on Housing recently identified ten million renter households -- one-fourth of whom are living in assisted housing — who require assistance if they are to live in decent housing at costs they can afford.

In Cleveland, more than half of all households in the city qualify as lower income according to HUD's criteria. Most of these households must choose between living in substandard accommodations or spending an inordinately high percentage of income for decent housing.

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1. Cost of Housing

The biggest problem for millions of low income citizens is the financial burden of paying the rent. The poor pay a disproportionate amount of their income on housing. The median income for all renters who spent more than 35% of their income on rent in 1977 was only $4,000. By contrast, 62% of renters with incomes of $35,000 or more spent less than 10% of their income on housing. As income rises, the proportion paid for housing -- particularly rental housing -- decreases. Until last year federal housing programs responded to this disparity by assuring that families getting assistance pay no more than 25% of their income for housing. Even so, only a very small fraction of the poor benefit from housing assistance -- 8.1% of eligible households in 1978. These rising rental costs are especially burdensome on people who subsist at the poverty level and who confront rising prices and diminishing resources in meeting all of their basic necessities.

2. Housing Shortage

Across the country there are hundreds of thousands of people waiting for decent shelter. The severe housing shortage is worst with regard to rental units. Indeed, we are gradually witnessing the disappearance of private low-rent housing. Rents in the private market are beyond the reach of low income Americans. According to the National Low Income Housing Coalition, there is a net loss of over 500,000 low rent units annually due to inflation, conversion, abandonment and other causes.

Although eligible for federally subsidized housing, most low income households are not able to obtain subsidized housing because so little is available. There are at least five times as many eligible households living in bad housing or paying more than they can afford. In order to realistically meet the need, we believe that a minimum of 600,000 additional units should be provided annually. In Cuyahoga County, for example, where Cleveland is located, 112,214 households were in need of housing assistance in 1980. At the same time, however, only

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631 units of Section 8, New Construction were allocated to the County in 1980. Stated differently, the 1980 allocation of Section 8 New Construction met only .56% of the documented housing needs. In short, production of low-income housing must be significantly expanded to ensure an adequate supply. Income supports alone will not solve the problems of supply.

3. Preservation of Public Housing

Public housing provides shelter for over three million people whose median income is approximately 27% of the national median income. In Cleveland, the local public housing authority is the landlord of 8-9% of the city's population (approximately 45,000 people). The average annual income per household as of December 31, 1980, was $3,330. According to the December 31, 1981 Cuyahoga Metropolitan Housing Authority, the waiting list was 2,431 families. It is vitally important that this housing be adequately maintained. The modernization of the existing stock is an immediate concern and must be given high priority; for, unless modernization is accomplished, the operating costs associated with high energy bills and depressed maintenance will continue to rise. Similarly, if operating subsidies are not adequate, cutbacks in services and maintenance will result in either deterioration or in demolition and the consequent displacement of the poor.

IMPACT OF LAST YEAR'S BUDGET CUTS

Last year's budget cuts have intensified the shelter needs of the poor. In reports from individual bishops, from Catholic Charities agencies, from inner city pastors, from organizers of self-help programs for the poor, from housing organizers and volunteers in parishes, we in the Church have heard essentially the same message: the cuts have hurt the poor severely. We know from our experience around the country what the impact has been. We know because those affected by the budget cuts are showing up on the doorsteps of Catholic parishes and Catholic Charities agencies. An ever-growing number of people are homeless.

Last month, for example, the doors of Holy Ghost Church in Denver were

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opened at night because it was anticipated that thirty or forty people needed emergency shelter. Within a month the numbers have swelled to hundreds of homeless men, women and children who are now sleeping in the pews of the church. In the Archdiocese of St. Paul-Minneapolis a woman, knowing of the lack of adequate shelter for the homeless, left a stack of blankets in an unlocked car overnight. The next morning she found four adults sleeping inside, huddled together against the cold. Here in the Archdiocese of Washington, shelters are filled to capacity. For the first time we are seeing not only the chronically destitute, but as many as fifty percent of those seeking shelter are unemployed young blacks. For the last six months Catholic Family Services in New Haven, Connecticut has been seeking housing for a woman with five children who has a Section 8 certificate. This case is repeated across the country. It is increasingly difficult to find affordable rental units for large families, especially women with children.

We also know becuase in some areas innovative housing programs sponsored by Church-supported groups have been terminated. In the Archdiocese of Baltimore, the St. Ambrose Housing Aid Center, an affiliate of the local Catholic Charities, has been in the business of providing homeownership and rental units to poor families. In an innovative undertaking that combined the existing Section 8 rent subsidies with Section 312 rehabilitation, St. Ambrose has renovated hundreds of gutted single family houses and has rented them to the working poor who earn from $5,000 to $10,000 a year. This successful rehabilitation program was abruptly halted with last year's elimination of the Section 312 rehabilitation program. Combining state loans, UDAG monies and existing Section 8, St. Ambrose has recently converted a school into rental units with three and four bedrooms -- one of the few places in the country with units that large which are available to the poor. The project leaders, however, fear that this project, too, will be jeopardized if the Administration's new proposals are adopted.

Through the Campaign for Human Development, a social justice funding

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sponsored by the U. S. Catholic Bishops, we are further aware of the desperate housing needs of the poor and the critical assistance provided by federal housing programs. Voice of the People, a CHD-funded program, is a not-for-profit housing development corporation funded and operated by residents of the Uptown Community in Chicago. It provides decent housing for low-income families by directly involving the tenants in the development and management of their apartments. As a recipient of Section 312 Rehabilitation loans, the Voice of the People project was affected by the termination of that program. Its activities will be further paralyzed if the Administration's proposed reductions in the Section 8 program are adopted.

Many of these CHD-funded groups have leveraged private sector funds. However, without federal assistance, private sector funding can only make a very marginal contribution in addressing the housing needs of the poor. National housing programs should do more to encourage the participation of community-based nonprofit organizations and neighborhood groups in the implementation of housing programs.

I could go on with a long inventory of examples, but the message would be essentially the same -- the already severe housing needs of the poor are being made even worse as a result of last year's budget cuts.

As a Catholic bishop, I have listened carefully to the suggestion that the voluntary sector, and the churches in particular, can and should take up the slack caused by the budget cuts. This suggestion, that private charity can increase sufficiently to make key government programs unnecessary, ignores both history and reality. From a practical standpoint, it is simply not within the realm of possibility to suggest that the voluntary sector can replace major and necessary government programs. This suggestion is even more unrealistic in the area of housing. Certainly, the churches will continue to increase their efforts and resources to aid the homeless, but we cannot, by ourselves, fill the massive gap in low-income housing needs that already exists and is intensifying. While the charitable activity of religious institutions is increasing and will continue

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to increase, it cannot and should not substitute for the essential responsibility that government has to play in meeting basic human needs.

GOVERNMENT: ESSENTIAL ROLE

The essence of the message I would like to leave with you has to do with human rights and the role of government in guaranteeing and protecting those rights. The Catholic Church has a long tradition of social teaching on that subject. Our concern and interest in federal housing policies flow from that tradition. The United States Catholic Conference and the bishops from around the world have called the right to shelter a fundamental right, one essential to human dignity.

Pope John XXIII, in his encyclical, Pacem in Terris, listed the right to shelter as one of the most important of human rights. It follows directly from the right to life itself. The Catholic tradition views basic human rights as a kind of baseline, a set of material conditions which are essential for human dignity. The Church fully recognizes the significance of classifying shelter as a basic right. For rights are not matters of privilege or choice. They imply an obligation on the part of society, an obligation that ultimately rests on government. When, through the normal workings of the economy and the social system, the basic material needs of some citizens are not met, the government has the responsibility to intervene. It has the duty to see that no one goes without adequate housing. The harsh reality of our present economic systems is that, without substantial and effective government intervention, people will go without shelter. We believe that the federal government has the ultimate responsibility to see that this does not happen. When we talk about the implications for public policy, then, we are not speaking of housing as a matter of largesse or charity. Rather, it is an issue of basic social justice.

FISCAL YEAR 1983 BUDGET CUTS

In the context of the basic principles of human rights which I have referred

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In fact, the Administration's Fiscal Year 1982 proposed reductions in the area of assisted housing are simply unacceptable. They represent a retreat from a long-standing bipartisan commitment to meeting the housing needs of the poor, and a large-scale abandonment of federal responsibility in meeting low-income housing needs. If enacted, the proposals would have the effect of either reducing or eliminating programs on which the poor depend for their basic housing needs. In terms of budget authority, the housing cuts constitute the largest reductions proposed for any activity of the federal government. Therefore, they come on top of the large-scale retrenchments adopted last year. In short, these cuts will aggravate the already desperate housing plight of the poor. They should be firmly rejected.

I will not go into the details and technicalities of the specific housing proposals that are before this Subcommittee, for other individuals and groups that have appeared here have addressed those issues quite competently. I would note, in particular, the testimony of the National Low-Income Housing Coalition, of which the U. S. Catholic Conference is an active member. Without going into the specifics, however, let me highlight several areas of concern that I hope the Congress will consider.

I. MAINTAINING EXISTING STOCK

It is vitally important that the present stock of assisted housing be adequately maintained. The level of operating subsidies for public housing proposed by the Administration is clearly inadequate and should be increased.

II. RENT INCREASES

There should be no rent increases for the three million families living in low-income housing. The Administration's proposal to require tenants to pay their entire utility bills and to count food stamps as income could literally double or triple the rents for many households. Since rents would go up $3.00 for every $10.00 that the family receives in food stamps, it is the poorest tenants, those receiving maximum food stamp allotments, who would be the most severely

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affected. A welfare family in Mississippi or Texas living on an AFDC grant of only $100 a month would have its rent tripled. Similarly, tenants living in cold climates or poorly insulated units would find it impossible to pay high utility bills from their meager benefits. We must not forget that these proposals would affect people already subsisting at the poverty level and confronting diminishing benefits in other federal assistance programs.

III. RESCISSION OF ADDITIONAL SECTION 8 AND PUBLIC HOUSING

The housing that is now in the pipeline should be produced as rapidly as possible. The proposal to rescind funds already appropriated and thus cancel hundreds of thousands of commitments for new or substantially rehabilitated units should be rejected. In the face of an already critical housing shortage, this proposal is totally unacceptable. Since an estimated 500,000 units of low-income housing are lost each year through decay, condominium conversions, rental increases, and other causes, the failure to replace them with any new units will only worsen the housing crisis. It is urgent, therefore, that Congress support production and rehabilitation programs that are targeted to assist low income people. The private market simply cannot supply the number of units which are needed by low-income people.

IV. SECTION 8 RENT SUBSIDIES

Federal rent subsidies in "Section 8 existing" program would be reduced by 15-20% under the proposed "voucher" system. This proposal should be rejected, for even under the present system based on fair market rents, half of all households receiving Section 8 certificates are unable to find units within the allotted time period. Reducing the rent subsidy would only make the situation worse.

V. RURAL HOUSING

In many rural areas the housing crisis is at least as severe, if not worse, than in urban centers. The Administration's proposal to cut Farmers

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Home Administration rural housing programs to one-third of their present level should be rejected. The proposed cuts would have a devastating impact on needy rural Americans, many of whom live in already substandard housing.

V. HOUSING TAX EXPENDITURES

The burden of the proposed cuts in federal housing expenditures falls most heavily on the people who can least afford housing. Those who propose the cuts argue that low-income housing assistance programs are too costly. Yet, the largest share of federal housing activity is not in direct subsidies to the needy but rather in indirect subsidies to middle and upper income people through the tax system. Housing tax expenditures—primarily, deductions of mortgage interest and property taxes by homeowners—are rising at an unprecedented rate. The higher a person's income the more likely that he or she will benefit from this subsidy, and the higher the subsidy is likely to be. It is estimated that these expenditures will cost $43 billion in Fiscal Year 1983. Most of these benefits go to people in the top 15% of the income distribution.

We support the goals for homeownership that the tax incentives reflect. However, the use of these tax incentives raises questions of equity which must be addressed through public policy. The people who can least afford housing must not be unfairly singled out in the reductions in federal housing programs.

We welcome "The Housing and Community Development Amendments of 1982," H.R. 5731, legislation introduced by Chairman Gonzalez. We would urge, however, that the level of low-income housing assistance be increased. The rental housing production program, in particular, should require more subsidized units for lower income households.

CONCLUSION

As we have stated in other Congressional forums, the Catholic Church, when it enters the arena of public debate, is not neutral. It enters with an explicit and conscious advocacy on behalf of the poor. In the tug and pull of the political

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process poor people are not likely to win out. They do not have much power and they are without powerful political allies and lobbying networks. They do not contribute much to election campaigns, and they do not vote as much as the rest of the population.

As a result, particularly in the budget squeeze, the poor have been the worst victims. In examining the effects of last year's budget cuts and the cuts proposed for Fiscal Year 1983, we have recalled the words of Pope John Paul II in a speech he gave last year. He said: "The present economic difficulties . . . must not become a pretext for giving in to the temptation to make the poor pay for the solutions to the problems of the rich. . . . "

As a nation we already appear to be giving in to that temptation. The cuts enacted last year and the even deeper cuts proposed this year for Fiscal Year 1983, stand in stark contrast to the massive tax breaks for wealthy individuals and corporations. To cut taxes for the wealthy and increase military spending to unprecedented levels while at the same time punishing the poor with cuts in housing and other human needs programs, is unfair and unwise. It is contrary to the basic human rights of the poor.

The nation's current economic and budgetary problems are obviously very serious. But these problems can and must be solved without punishing the poor, without violating their rights to basic necessities. In the Christian tradition, how we treat the poor is seen as a measure of our religious faith. I believe it is also a measure of our health as a nation and our wisdom as a people. In housing policy in particular we face problems which will require difficult choices.

In closing, I wish to emphasize that the debate over housing programs, as well as the larger debate over the federal budget, is not simply a debate about numbers and dollars and programs. It is about human beings -- children, parents, the elderly -- their joys and sorrows, their successes and failures, their hopes and dreams. It is about American families -- about whether or not they will have enough food on the table, enough income to support them, a roof over their heads. It is, in short, a debate about human dignity.

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Ms. OAKAR. Thank you very much, Bishop, for your superb, pointed testimony. You certainly made it very real and human. We deal so much with numbers here that sometimes we forget the flesh and blood of what all these numbers are about. I think you certainly placed the issue on not only a practical level but a moral level, which is what we should be thinking of.

I would like to ask my colleague, Bill Stanton, if he has questions for the bishop since the bishop has to leave, if the other panelists do not mind.

Mr. STANTON. Thank you very much, Mary Rose, and I too join in thanking you, Bishop, for your statement. I think that probably I should repeat something that you well know. This committee's basic responsibility, as an authorizing committee, is to come up with recommendations to our colleagues on the type of housing and the number of units of new and existing rehabilitation should be in the budget.

To carry out these recommendations requires appropriations. We have no power over the amount of moneys that are put into this program or that. Our colleagues on the Appropriations Committee can really overcome almost anything that we as individuals do here on the committee. They, in conjunction with the other body, the Senate, finally dictate the program.

But it is obvious to anyone that there is a change in direction's. We have never, since the great days of Lyndon Johnson, had the amount of money needed to supply the number of programs that we have authorized. But there are some real hard questions coming up. On the one hand, the administration wants virtually no new housing whatsoever—that is the bottom line—while I do not think they will get that, what the chairman would want, on the other hand, we cannot afford.

If there is a choice, though, and we are cutting back, over the years this committee has tried to balance between the low-income people you are talking about, sleeping without a home, and the moderate income we get into questions concerning the need to mix the low with the moderate or else we get ghettos and the social problems that exist compound.

So we think we have been right in trying to balance this. We have created some animosities, especially in little communities that did not want this subsidized housing, but we have stuck by our guns. But now, when the money gets tight, would you agree that whatever money you do get allocated, if it becomes a question of priorities, should go to the poorest of the poor?

I think I know your answer on that, but follow my thinking; if the money is cut back and we are forced to do it, then we may have to realine our particular moral philosophy in some of our programs as we have come to understand them and have supported them.

Bishop LYKE. Well, again I would repeat that the bottom line statement that I make is the question of the dignity of the human person and I believe in the basic good will of the American people.

I believe that we as American people do not want to see the dignity of anyone degraded and I am persuaded, at least speaking for my own religious tradition and from what we are doing in Cleveland, that our people, once they understand the essence of the

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d the dilemma, will respond according to the needs of
heir human dignity requires it.
enerosity of our people, I think, will be matched by a
of consciousness, of will and intent. I believe that it is
that the Federal Government know this.
TON. Fine. Thank you very much.
AR. Thank you, Bill.
I would like to refer to page 6 of your testimony in which
te that the voluntary sector cannot necessarily replace
d necessary Government programs and that while the
increase their efforts and other community organizations
their efforts, nonetheless it is no subsitute for a solid pro-

that is very, very important to reiterate. I know my own
which is in the inner city and has numerous programs for
and for the multiplicity of needs of the people, not only
ur community but from the diocese—it does not really
too much what religion they are—the parish is trying to
ose needs.
It is a difficult substitute for a program. You graphically see
nd as a mirror for what is the problem in the Nation. I
you go to various neighborhood group meetings and so forth.
is your reading of the frustration level of those who are suf-
ring? Are they filled to capacity in terms of their programs
we expect more increase in volunteerism or less?
just think if you could elaborate on that statement for the
d it would be very important.
ishop LYKE. I would be very happy to. I know that across
tly experiencing a growing frustration. Of course that is
er be matched by the frustration of the poor who are hungry
ial suffering. Our suffering is trying to meet those needs
nds and respond to the constant calls.
As you know, in Cleveland, with Bishop [illegible] Ursuline
verty, we have made an effort to involve [illegible] Sisters as
well as Catholic charities in this effort. [illegible] Sisters
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One of the frustrations of those who live in public housing, along with the long waiting list that we have for people who have the need for public housing—and you certainly point that out with very important statistics—is that we see all this boarded-up housing because it just cannot be maintained without various operating and modernization monies.

We have been criticized—and Bill can attest to that—that section 8 is a very expensive program and that sometimes developers benefit from it in a big way, but it is beautiful housing stock whenever we have that. But, when you are able to get a grant for perhaps 100 units and you have 500 people clamoring for the same numbers of units and waiting lists galore.

I am wondering if you could comment on whether or not we might use existing money in certain communities more pliably if we were able to modernize the hundreds of boarded up units as opposed to building perhaps 100 or 200 units with the money that is given. I do not mean to suggest that section 8 is not important—I happen to believe in the program—but I am just wondering if you would like to comment on that.

Of course, your personal experience was so important to this Committee also.

Bishop LYKE. Yes. I would say that when possible it is better to rehabilitate housing, which you are referring to as the boarded up housing, simply because there is an atmosphere of dignity to that kind of housing as opposed to Government housing projects.

However, I would hasten to add that I doubt whether that would meet the crying needs of the people right now and certainly I would be bent on keeping the housing that we have maintained because you simply do not have enough boarded up houses to rehabilitate to satisfy the need.

Ms. OAKAR. Speaking of the public housing units that are boarded up specifically, there are certainly a lot of homes in greater Cleveland that are also in need of rehabilitation.

Bishop LYKE. As you probably know, that is what I thought of because we have a lot of boarded up housing in Cleveland, but again, my bent would be, given the critical need and the increasing numbers of people who need housing now, I would tend to say we should work and do something about the boarded up public housing that you are referring to while simultaneously supporting the other kinds of programs.

As you know, we have Formicos in Cleveland that is a great kind of program. I think the proper studies would be helpful to tell us how we could handle both of those situations. Of course, I would hope that you would continue the excellent work that you are known for in the Cleveland area.

Ms. OAKAR. Bishop, I know the chairman would be very happy to thank you for—your endorsement of his legislation, which you mention on page 10.

I have one more area I would like to touch upon. One of the things that we have been thinking of in our travels and in visits to our communities is that a lot of older Americans who have their homes—perhaps their families have moved—or grown up do not necessarily want to go into public housing. They would like to stay at home but they cannot afford the utility bills, and so forth; and

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their homes are getting too large for them to maintain individually.

We have been thinking of a concept called shared housing whereby the Government would provide—and I have introduced some legislation to possibly amend the act, that the chairman has introduced—to include that, whereby you would permit individuals who qualify for subsidized housing to share with another individual who might have given up his or her home, to share their home and maintain it at the same time and have, perhaps, the familiar atmosphere of a home by sharing. Everyone maintains a certain dignity by being part of, in a sense, a family situation.

I am wondering if in your studies you have encountered any program like that and if you will comment on that kind of concept being added to the traditional types of subsidized housing that you mention in your testimony.

Bishop LYKE. Quite frankly, Congresswoman, I have not come across any studies in that regard. I can only say, however, in support of your idea that in many of our parishes we are more and more getting our younger people to have a kind of godson/goddaughter care for the elderly in the parish. This has brought a remarkable sense of life to elderly and a remarkable sense of love from the younger people.

I think that kind of human relationship would be the foundation upon which an idea like yours could be built. I am thinking out loud now, but I see great hope in something like that.

Ms. OAKAR. Thank you very much, Bishop. We want to wish you continued success and we thank the U.S. Conference, the entire Conference, for having you here to testify. We consider it very valuable.

Bishop LYKE. Thank you. I am deeply appreciative of all of you.

Ms. OAKAR. Our next witness is Dr. Wendell Belew, who is the director of mission ministries of the home mission board of the Southern Baptist Convention.

I think it is interesting to note the cross-section of religious affiliated groups that we have represented here today. It is very important.

Before I ask you to testify, if you will forgive me, Doctor, the Chair would like to note in the audience—if you will forgive my personal involvement here—her former professor of logic and philosophy, who was the head of the Sociology Department at Ursuline College, a very fine institution, who even very generously allowed me to graduate. She is Sister Miriam, who was a social worker before she entered the religious life and has educated many social workers in the Cleveland area and those of us who are not social workers as well.

Sister, we are really delighted to have you here.

Sister MIRIAM. Thank you.

Mr. STANTON. Would you yield?

Ms. OAKAR. I would be happy to yield.

Mr. STANTON. I certainly want to join Mary Rose in welcoming Sister Miriam here. Her work was brought to my attention first by a girl from my hometown, who I went through grade school with, Sally Lampier.

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Second, while Sister Miriam has been around taking care of the social needs and teaching at the Ursulines, my aunt has been taking care of the nuns of the Ursulines, Sister Dolorita.

Sister MIRIAM. Yes, we are buddies.

Mr. STANTON. Tell her I said hello and don't you get up here and want something, because you would get it in a minute, so please stay out there where you are.

Thank you.

Sister MIRIAM. Thank you.

Ms. OAKAR. Thank you very much. You know, whenever those of us who were educated by the sisters do anything wrong, we just blame it on the Ursulines.

Doctor, thank you very much for your patience and we are delighted to have you here. You may proceed in whatever manner is most comfortable for you. We would be happy to submit your entire testimony for the record if you would like, or you may summarize it.

STATEMENT OF DR. M. WENDELL BELEW, DIRECTOR OF MISSION MINISTRIES, THE HOME MISSION BOARD, THE SOUTHERN BAPTIST CONVENTION

Dr. BELEW. Thank you. I do have an attachment for the record, a report of Robert L. Moore, Director of the D.C. Department of Housing, entitled "Safety Net—With No Way Out."

Southern Baptists are a very diverse group. Ours is a membership made up of 80 different racial and ethnic groups. There are approximately 36,000 churches affiliated with the Southern Baptist Convention. The constituency numbers approximately 13,600,000. These are in all of the State and major communities of the United States.

I do not presume to speak for all of the membership of our churches but I do bear a special responsibility as the director of missions ministries on behalf of Southern Baptists.

Our constituency is very heavily involved in many programs of ministry. we are concerned about how people live and whether or not they have adequate food, clothing, and housing. It is to the latter point that I wish to address this body, to express a deep concern about what I think is happening in our land today.

Southern Baptists are strong proponents of the separation of church and State. Yet we are churches within the State and believe that a partnership of mutual support, especially in the area of housing, can be accomplished. Each entity—church or State—provides resources which the other cannot. The project is funded, or low-interest rates provided, by the State. The church can contribute a spiritual and moral example for the building of families and community.

For nearly half a century our Nation's government has been involved in producing low-income housing. In Atlanta, Ga. where the Home Mission Board is located, the first low-income housing project, the Techwood Development, was completed in 1935. This project has had a remarkable effect upon its community. Some of its former residents have become leaders in our city and churches.

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It has had strong involvement with the Tabernacle Baptist Church, which is located nearby, and the Baptist Home Mission Board helps to support a mission center in the Techwood community. Through these nearly 50 years, this project has been a symbol of what good government could do for those who did not have the best opportunities for housing.

Although funds for renovation are being drastically reduced, the local housing authority was able to utilize existing funds to begin the renovation of this project. Again it will be a residence for those who will become leaders of our city and the other cities of the world—a good example of what public housing can do.

Tragically, however, after nearly half a century of good experience in providing for low-income persons, elderly poor persons, and in providing low-income persons with assistance in the purchase of properties and in many other areas, this most humane program of public assistance is being destroyed. Recommendations for fiscal year 1983 housing assistance would indicate that our Government "of the people and by the people" is not especially for low-income people, who are tragically in need of housing.

Can it be possible that our Nation will devise techniques and funding for a military establishment capable of maiming or killing half the people of the world but remain incapable of maintaining adequate housing in our Nation? The proposed 1983 budget provides $32 billion less than the amount needed to maintain Federal housing programs at their existing levels.

Thirty-seven percent, or $23 billion, of this cut comes from low-income housing programing, the largest cut proposed for any activity of the Federal Government in 1983. In future years it is projected there will be consideration of a recision of appropriations for new and rehabilitated assisted housing units. There is an effort, really, to get rid of many existing subsidized units and to raise rents to the point where federally subsidized low-income housing may cost more than unsubsidized housing.

Southern Baptist churches, and those of many other denominations, have been involved in the building of low-income housing for the elderly. Recently I visited such a complex that had been made possible through 202 funds provided by the Housing Administration. As I conversed with some of the residents of this complex, I was thankful for a government that had cared enough and for churches who had been willing to expend their energies and expertise to join in the production of a facility which brought such happiness to the lives of people.

I recall the days when we took care of our poor in what we called county farms or poorhouses. Many of our neighbors dreaded the possible thought of spending their latter years in a poorhouse with every vestige of pride destroyed, waiting patiently to die. But the residents of this complex which I was privileged to visit, were happy, their dignity preserved, and living in attractive surroundings.

Our churches, synagogues and religious institutions, in cooperation with a beneficent government, have been able to provide a new kind of dignity for low-income persons. The poor have not, in these instances, been depreciated because they were poor. They have been paying part of their way.

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But, then, this may be the final chapter for such communities as this, for it is projected that such new units will not be built again on a scale adequate to accommodate the needs. Hundreds of low-income units already approved for subsidy will never be built or rehabilitated because the subsidy commitments will be withdrawn.

Hundreds of thousands of commitments for new rehabilitated housing units already approved under the section 8 and public housing programs face cancellation. Some 300,000 of the 700,000 units which are in the process of being developed will be lost. This loss comes at a time when affordable rental housing units are shrinking rapidly and when one-fifth of all construction workers are unemployed.

In most cities there are long waiting lists of those who are seeking to enter low-income housing projects of various categories. There are as many as 5,000 on the waiting list in Atlanta.

An official with the Birmingham Housing Authority told me recently of their opening of a new project of approximately 200 units. After they had advertised the opening of these units and the day for accepting applicants there was a line 3 blocks long that continued for 3 days seeking to become certified for living in that particular project. We have heard of instances where there were people who waited from 10 to 15 years in order to get into low-income housing projects.

Perhaps among the most effective of the federally funded programs have been the self-help programs. These projects have been of as great benefit to the American Indians as perhaps any programs that have been offered. The American Indian's income is the lowest in our Nation. But at last there appeared signs that someone cared. Navajos, Pueblos, Sandia, Jicarilla Apaches, the Navajos of Canyoncito, and many other tribes became apprised of a self-help program wherein Government funds were provided for a site and materials and the Indian family could erect a house.

Church members from some of our 500 Southern Baptist American Indian churches helped to facilitate the building of some of these Government-funded self-help houses. But if the proposed funding of houses for Indians is not enacted there will be no more help for Indians. It would appear that the old cowboy and Indian game is being reenacted, and that the Indian loses once more.

Dr. Sam Simpson is a Southern Baptist pastor who works in the South Bronx. Two recent Presidents have visited in that area and have noted the devastation that has been wrought there by housing that has been destroyed or has become uninhabitable. Dr. Simpson and other pastors of the area have set about to form an organization to rehabilitate the area. These are the Bronx Shepherds, an interdenominational organization of religious leaders in the Bronx.

During the past year, five work teams from Southern Baptist Churches in the south have gone to New York City and helped the Shepherds rebuild and refurbish 135 apartments in 5 buildings—and, I might add, at an average cost of $5,000 an apartment. The apartments will eventually be sold to the tenants.

These work teams are volunteer skilled laborers—electricians, plumbers, contractors—who have been willing to give their vacation time or have taken personal leave in order to go to this devastated area and express love the best way they know how. Obvious-

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ly, they have made a considerable impact with the refurbishing of 135 apartments.

With cutbacks in Federal funds which have been available for housing renovation—and this has been the source of the funds—no new work can be done in the years ahead.

Mr. Bob Davis, who is a deputy housing commissioner for the city of New York, said that his department manages more than 35,000 apartments which the city has taken over from owners who have not paid their taxes and 14,000 of these are now in various stages of ownership assumption by about 25 different community housing and tenant organizations, such as the Shepherds. These people, Davis says, are the wave of the future. They are a rare and unique group of people.

And yet, as willing as these volunteers may be to assist their fellow man and to recognize their neighbor, it is not possible for them or the thousands of others like them to do all of the job by themselves.

Certainly it is important that churches and benevolent organizations do the best they can to assist in as many ways as possible to correct the horrifying housing shortages for the poor and especially for the elderly, but it is not possible for them to do that alone.

Not only is this not possible, it is not just that a Government which is supported by these people becomes so calloused and oblivious to the hurts of their own land that it refuses to even become a partner with those who would seek to make an effort to provide adequate housing for the needy.

Another disastrous implication of proposed legislation on housing, or perhaps nonsupport legislation, will affect rents in the lower income housing arenas. Possibly as many as 3 million families will see their rent increased at a time when unemployment is at its highest and inflation eats away at the basic meager incomes of so many.

The administration is proposing legislation to require tenants to pay their utility bills and to count food stamps as income. In every instance this would vastly increase the rent, not leaving any funds for basic necessities.

To suggest that the private sector is going to step in now and meet the needs that have been previously met by the Government is certainly far from realistic. The private sector is not especialy interested in low-income housing. We cannot expect a trickle-down effect from those who are builders—what few of them are able still to build.

The most lucrative investments in housing come in the area of condominiums and upper income housing. As many apartment complexes are converted into condominiums, those who are occupants are forced to leave. Even in low- and middle-income groups, escalation of rents is forcing them out of the kind of housing which they have comfortably enjoyed into kinds of housing that are totally inadequate. Widows on fixed incomes, though above the poverty level, are unable in many places in the United States to find adequate housing in the private sector.

Mildred McWhorter, director of our mission work in Houston, Tex., informs me of the plight of a Spanish-American mother and five children. The children are from the ages of 6 to 13. The hus-

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band deserted some 6 years ago and the mother has worked as best she could find work in two part-time jobs. She does not speak English well. She cannot get a job. She has asked for Federal help for house rent and utilities, but this is not available.

There is no aid available in the county or State. She is receiving aid through our Baptist mission center, but this aid cannot continue long because there are hundreds more in situations such as she.

In the same city, a grandmother with four small children taken in from negligent alcoholic parents is in desperation. She and the children exist in vacant buildings or a temporary shelter. She walks many blocks to our mission center simply to earn food and clothing for the children. How many more are there such as this? If the "supply side" economy is going to work, it should begin working soon in one of America's wealthiest cities, Houston, Tex.

One of our workers in New Mexico has told me of the very successful project developed in Las Cruces. Del Cerro is a housing development in which HUD provided a low interest loan for low-income persons to purchase units. This splendid development has provided a unique opportunity for Hispanics who live in the area.

That these citizens of our Nation have been able to find a good place to live and be able to feel the pride of ownership is really a part of what has been the great American dream. They have not been given much, just a low interest loan. They are paying for their houses. But is the dream now ended? With the proposed new federalism it may well be.

The proposed legislation will reduce the number of low-income housing units and reduce the number of projects that had been approved and could be approved for renovation. This makes rentals climb to the point where they are no longer affordable even by those who are not already poor.

Housing has been curtailed at a time when the need for housing is at its most critical point perhaps in 25 years. An added crunch for housing is coming because our population is getting older and many individuals are retiring from the work force on limited fixed, or perhaps shakily fixed, incomes.

With social security, medicaid, and medicare benefits threatened, many of these who are retiring cannot afford to live in their preretirement housing. Where do they go? A middle-income widow I know has moved three times recently because her rent has been radically increased. She is pathetically hurt and frightened.

A recent study by economist Shirley Ryan indicates that the rapid growth of America's older generation is posing major problems for both Government and business policymakers. The study shows that the number of people 60 and over is increasing considerably faster than the rest of the population, up 16 percent from 12 percent in 1950. It is estimated by the year 2000, 24 percent of the population will be 60 and over.

Is it not incredible, then, that in light of this rapidly increasing elderly population we have no ability or perhaps no concern to provide them with adequate shelter? Many of these are living alone. Their families are gone and there is no one really to care.

The churches and synagogues will try to help, but their major financial responsibility is not housing. It had been our thought that as persons of good will became involved in Government they would

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be able to enunciate the principles that have so long been a part of our caring Nation.

Is it not incredible that acres of housing which could well change the whole nature of the community, State, and Nation can be supplanted by one aircraft carrier? Is it not incredible that as we seek to gain superiority or equality with Russia in military strength we also gain equality with them in housing and are forced to pile our impoverished multitudes in small rooms with inadequate heating or other inconveniences?

If there are those who believe that federally funded housing has been misused and that many projects have not been well managed, they would be correct. There have been projects that have been misplaced and allowed to deteriorate, but this is not the majority of the housing projects. This cause has often been that the projects did not have adequate funds for repair. The proposed fiscal year 1983 budget would decrease the funds for repair even further.

I would encourage you to look afresh at the priorities of this budget to ascertain what is best for our land, to see these expenditures not just in terms of dollars and cents but rather in terms of people cringing in the shadows of vacant houses, hunting for a place of warmth, seeking to gather their children about them, but with no place to lay their heads.

I would encourage you to remember the priorities of our land that has given to us leadership from poverty, Presidents from log cabins, and which has helped us to know that any home can be a castle.

Lewis Harris Spence, the court-appointed receiver of the Boston Housing Authority, has said:

> I propose that if we allow the apparent current trends to advance unabated, the consequences for our poor and for the life of our community more generally will be horrific. The simple arithmetic of housing availability will increasingly confine the poor to smaller and smaller enclaves in ever more squalid conditions, at ever more unbearable costs. When this occurs, today's phrase "social tension and discrimination" will mock the enormity of conflict between races and classes that will ensue.

Mr. Spence was well aware of what is happening in Boston. By the spring of 1981 over 400 rental units in Boston had been converted to condominiums. That form of ownership is more heavily subsidized through tax deductions than rental housing. In Boston the current rental vacancy is 2 percent. Less than 5 percent is considered extremely tight.

In 1981 the typical cost to rent a two-bedroom unit was $400 to $500 a month. Roughly one-third of Boston's population, or some 200,000 people, are poor or near poor. They depend for their shelter on three segments of Boston's housing market—public housing, privately owned subsidized housing, and unsubsidized private rental housing. And all three are shrinking.

Mr. Spence has further noted:

> The distress of public housing—the collapse of order and community among the residents of our projects—is, I believe, a paradigm of the condition we increasingly impose upon the poor. The chaos which pervades our troubled projects is only a dramatic example of the more general deterioration of life in poor communities. That is not widely enough understood.
>
> The dynamic which degrades life in the project is at work no less effectively, if less intensively, in all poor neighborhoods. The chaos which pervades life in public

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housing and other poor communities is the same chaos which threatens to degrade life for all of us.

If the current dynamic continues and the conditions of poverty are aggravated, if we are to reclaim tranquillity for the larger community, we must first reclaim it for poor communities. There can be no quietude for all of us while chaos prevails for some of us. That is only just. It is the condition of community and nationhood that our welfares are knit together. Only a wellbeing that is shared can be assured.

I appeal to you, then, you who long have represented the needs of our Nation well. Do not permit this tragedy to happen to the poor, the young, the elderly. It is for such causes that governments are made. In the absence of just concern there can only grow anger, chaos, and anarchy. All the armaments we can build can never protect us from ourselves. We may be creating an explosion and planting it in our very midst.

Thank you, Mr. Chairman.

[The referred-to report of District of Columbia Department of Housing Director Robert L. Moore, "Safety Net—With No Way Out," follows:]

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SAFETY NET - WITH NO WAY OUT

The abandonment of the Federal role in housing this Nation's less than wealthy citizens is a touchstone of President Reagan's Fiscal 1983 budget. Hidden in the mass of figures and rationale is the postponement of dreams for affordable, standard housing accommodations for millions of Americans.

The administration proposes to halt practically all housing production and rent subsidy programs for low income citizens. The budget also offers no assistance for first-time homebuyers whose family size, income and current high rent level makes buying a home a high priority.

Not only would the poor pay more of their income for their current residency in subsidized housing, but moderate and middle income households also would chase escalating interest rates as FHA-VA rates float with the market. With the federal government going to the private market to finance almost a $100 billion deficit, first time purchasers will be competing with their own government for loans. This is a competition for loans most prospective homebuyers will lose.

Taken together, the curtailment of housing assistance programs, deteriorating economy and continued high interest rates will have a devastating impact on our nation's ability to provide a basic human need - shelter.

This new budget proposal flies in the face of the realities of housing poor - or even moderate income - households. The national requirement that we consistently recycle and expand our housing stock is obviated in this budget. Not only will individuals suffer, but efforts to revitalize neighborhoods and stabilize economically vulnerable populations may come to an abrupt halt.

For the District of Columbia and many other central cities, this budget will build on top of a current shortage of affordable housing, another set of problems that may well aid the return to a permanent caste of under-housed citizens. Without new assisted production and the ability to substantially rehabilitate older housing units, current and future needs will go unmet. Currently, the waiting list for rental assistance is increasing at an alarming rate in the District. During the last quarter of 1981, the application rate at housing offices increased 142 percent. It is estimated that some 20,000 households are actively seeking affordable housing. For those households that require three and

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four-bedroom units, generally not available on the private market, the wait is at least five years in non emergency cases. The increasing number of emergency demands pushes those not in disaster situations further down on the list.

Without mortgage insurance programs and other special home ownership opportunities aimed at retaining moderate income households in urban neighborhoods, cities will continue to lose populations to less expensive suburban areas. Some of these areas act vely oppose providing more lower-cost housing, however, and others have reached the saturation point. Much of the out-migration in past years was accelerated by Federal policies that aided moderate cost housing to be readily available in the suburbs when cities were redlined out of the market. These policies have resulted in a greater proportion of lower income groups in central city housing, but under this new budget centra cities are left to cope with mounting problems and few resources.

A recent analysis of new walk-in clients needing housing, comparing the reasons for need for the last quarter from 1979 to 1981, has revealed some significant shifts. Citizens citing below standard housing (including overcrowding) as their reason for seeking government assistance made up 71 percent of 1979 requests. For that same period in 1980, the rate dropped to 58 percent and ended up at 51 percent in 1981. These data preliminarily indicate overall improvement in the quality of the housing stock, a positive impact of housing production efforts for lower income groups and the general decrease in family size common to all income groups over the last ten years.

Conversely, the numbers needing housing due to costs outdistancing income have increased 300 percent. Those indicating affordability as their cause for seeking assistance rose from six percent in 1979 to 13 percent in the same period of 1980. The year-end statistics for 1981 indicated almost 25 percent of the new demand was a lack of income to maintain residency in standard housing.

For the elderly and the handicapped seeking some form of assistance, the demand increased 70 percent in two years, with a 27 percent increase in affordability as the source of the problems. These indicators have risen in spite of the District's production of over 3,000 units for the elderly and handicapped, with some 5,000 additional units developed for families.

From these facts alone a number of initial conclusions are evident.

— Few Market rate housing units (non assisted) in the District are within the reach of moderate and lower income households.

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The administration's proposal for a Housing Voucher Program will have no impact in assisting these households to obtain standard housing. While the cost-to-income gap may be narrowed by vouchers, the price escalation in the marketplace will far outdistance the effort.

– Further, the unit sizes required are not available in the private market to house those larger families who are in the greatest need.

In the District, three bedroom units have never constituted more than six percent of the supply, while larger units are needed by more than 40 percent of those on waiting lists. With no production of assisted, larger housing units, overcrowding will be the rule and will result in a shorter economic life for already worn older buildings.

The Fiscal 1983 proposal will not provide resources to bring back to the market large numbers of privately owned vacant housing. In the District's Ward 8, for examp e, there are over 2,000 vacant private y owned units. Much of this hous ng is off the market because of esca ating operating costs speculation, and foreclosures by the federa government. Without resources and incentives to restore th s housing to use, the District and other cities will continue to sustain housing shortages and resultant tax loses as the economy continues to dive.

A growing number of middle income households will continue to be forced into competition with lower income families for scarce resources. For the poor, the so called safety net, which this budget continues to shrink, will find pract ca ly all avenues out of poverty blocked. As job tra ning programs, higher education loans and special services to improve the human condition disappear, it is easy to envision boots with no straps to help citizens overcome obvious disadvantages. This administration has devised a safety net with no way out.

The financial pressures on general purpose local government to minimize the impact of these reductions may pit the poor against near poor. For those who cannot benefit from increased tax shelters or income tax cuts, no benefits will be achieved, and major losses will be sustained.

In the District, we must join in coalition to make the case for holding to hard-won progressive national housing goals. With a larger slice of the nation being left out of the housing market, new allies can be recruited to expand the coalition.

Much of what we see as boarded up housing was substantially deteriorated before it was vacant. Practically no middle income housing goes off the market. Many families and the elderly had to live in adverse conditions when many of these properties were occupied. Federal housing programs led the way to provide the poor with alternative to slums.

The so called Reagan reforms will return new family formations back into slum housing and all that it breeds. Those who do not have standard accommodations will have no hope of getting any; and without hope there is chaos, alienation and despair.

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Chairman GONZALEZ [presiding]. Thank you very much, Dr. Belew. There is no question that that is a highly significant and very dramatic presentation, and particularly in the name of the Southern Baptists. I do not know how many people here present today can evaluate the full impact and significance of that, most especially those of us from the South, and particularly Texas.

I cannot tell you in words what an inspiration and an uplift your statement has been. When I feel distraught and discouraged and pessimistic and feel that if I really gave vent to my feelings, that the only way that we could take action would be to go out and try to lead a revolution.

I do not know any other way. I think we are just too late. We have been spluttering around here with all of this temporary emergency, and I do not see that that is going to reverse anything. The President says that his feet are not in concrete, but his head is. [Laughter.]

Because that is our main stumbling block. The man has the power and what is at issue is exactly what you have so dramatically pinpointed, and that is the basic policies and programs that as national commitments this Congress has established for 40 years. Some of us have been saying this for 1 year and 2 months and have not been heard at all. We have been drowned out.

So I want to personally thank you and also my colleague here. You know, it sounds partisan and all, but I will guarantee you that if you had come into this same hearing during the time of a Democratic administration you would have heard the same kind of vehemence with respect to similar issues.

I will consider this as my 5 minutes because it was the intention to proceed with the other witnesses so as not to delay them, but does the gentleman wish to be heard?

Mr. STANTON. I just want to thank Mr. Belew for his statement. I am not as familiar as the chairman is with the Southern Baptist organization. I am very impressed with the number of churches and the size of your constituency. Of course you do an excellent job of presenting their deep concerns for the poorest of the poor.

I do not know. I am trying to think if he was a member of your organization. There was an excellent human being around here a number of years ago named Culver. Reverend Culver took off and went down into a black community in North Carolina or South Carolina. I had a cousin who was a Catholic missionary down there and he was in the Southern Baptist organization with Reverend Culver.

I have not heard from him now in several years. Usually, in his yearly lottery, I hear from him. He is a great human being and doing, I think, a good job. You can see it on his face, in the smile. If he is part of your organization, you can be proud of him. Thank you once again for your statement.

Chairman GONZALEZ. Just let me say this. Of course, there is a special significance for those of us coming from the South because had it not been for such church organizations as the Southern Baptist Convention in the 1920's, the Ku Klux Klan that was rampant in Texas then, had it not been for the Southern Baptist Convention—terrible, terrible happenings and injustices would have taken place. Some did, but many more unquestionable would have.

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And in other areas of social endeavor I think the record has been very, very dramatic.

We have Mr. Stephen Hoffman, the director of social planning and research of the Jewish Community Federation of Cleveland and Mr. Henry Goodman, the vice president, representing the Council of Jewish Federations.

I beg your pardon. I am sorry, Ms. Oakar. I apologize. We recognize Ms. Oakar if she wishes to make a statement.

Ms. OAKAR. Just very quickly, Mr. Chairman.

Dr. Belew, I just wanted to commend you on the testimony you gave. I am sorry I had to step out during part of it. I think one of the important points that you made was the number of projects that were in the pipeline that are now being threatened. We had a very interesting hearing that the Chair called with Secretary Pierce in responding to that. So many projects are under way and the frustration level of those who have planned them and done all the work to meet Federal requirements and have been awarded these grants now are facing a real frustration level which is to me very reprehensible.

The other point I would like to make is that so often because of other so-called Christian organizations we forget that there are many, many religious organizations who have a commitment to the poor. Sometimes they get meshed together in the minds of people and it is very unfortunate when religious groups as a result of this are sometimes looked upon as enemies of the poor.

I think you showed very eloquently that your large organization consists of more than 13 million individuals, has a strong conscience about what is going on. I think it is very refreshing and important to have that projected.

Thank you.

Chairman GONZALEZ. Mr. Stanton.

Mr. STANTON. Thank you very much, Mr. Chairman. I just wanted to recognize Mr. Goodman at the same time. I am not sure if I properly did that. I know that they are about to speak and once again they are distinguished guests, greater Clevelanders, and Mr. Goodman especially has a big concern in manufacturing and home furnishings. Many of my constituents are customers of Mr. Goodman.

He is also, of course, very active in the Greater Cleveland area, especially in the Jewish circles of humanitarian efforts. We are delighted to have you.

Chairman GONZALEZ. Thank you, Mr. Stanton, and pardon my oversight because I did notice they were from Cleveland and I had fully intended to ask you to introduce them. So thank you.

I do not know the desire of either one of the panelists. Should we recognize Mr. Goodman first? All right, fine. I noticed I was getting a signal.

STATEMENT OF HENRY J. GOODMAN, VICE PRESIDENT, JEWISH COMMUNITY FEDERATION OF CLEVELAND, REPRESENTING THE COUNCIL OF JEWISH FEDERATIONS, INC.

Mr. GOODMAN. Thank you very much. It just shows that Mr. Hoffman will deliver the bottom line, so they put me first.

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I would like to thank both Congresswoman Oakar and Congressman Stanton for your most gracious introduction here this morning and, very importantly, for what I believe to be very important—the crucial support on behalf of our area institutions as well as those of the greater American community.

Congressman Gonzalez, I think this hearing itself speaks to the sensitivity that you have in these particular areas on behalf of yourself and, I hope, on behalf of all of Congress.

My name is Henry Goodman and I am a volunteer leader of the Jewish Community Federation of Cleveland of which I am vice president. In my private life—which the federation, as was noted by Congressman Stanton, occasionally allows me to pursue—I am chairman and president of H. Goodman, Inc., a home furnishing and manufacturing company.

I am pleased to be here today along with Steve Hoffman on my left, the planning director of our Federation, as well as the other people on this panel, and to have the opportunity to talk with you about our view of the proposed budget for subsidized housing construction for older persons and the handicapped.

The Jewish Community Federation of Cleveland is over 78 years old. It consists of 20 social service, health and education agencies, some of which have been providing service to people for well over 100 years. The federation itself serves as the central planning, community relations and fundraising organization of the Jewish community of Cleveland in support of human services.

Well, over 5,000 individuals are involved in our year-round activities, including all segments of the Jewish community. We conduct an annual fundraising drive that reaches out to 70,000 Jewish people in the Greater Cleveland area each year and raises over $19 million.

Our federation represents a true system of services. Our agencies coordinate their activities through the federation, so that a person is easily able to get the help needed, whether it is medical care at our hospital, long-term care at one of our two homes for the aged, Jewish education for a child, or intensive psychiatric treatment for a disturbed child at Bellefaire, one of the Nation's finest children's treatment facilities.

We have an agency that helps people, many of whom have special problems, find jobs, and a community center that provides opportunities for recreation, serving as well as a nutrition site for meals for older persons.

The federation and its agencies have been engaged in a variety of housing programs over the last 20 years. We administer congregate living facilities for older persons and have made use of section 236 and 202 programs in the past. We have also been involved in an intensive effort to revitalize and stabilize an integrated suburban community and to help preserve the housing stock there.

Our work there is known as the Heights area project. It is involved in a neighborhood of Cleveland Heights, a suburb of Cleveland, Ohio. Over the last 11 years, we—the Jewish community—have provided private funds to make possible $640,000 in loans which have enabled 208 families to purchase homes valued in today's market at close to $9 million.

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In addition to our loan program, we have worked cooperatively with the city, other voluntary organizations and churches to conduct a series of community organization activities designed to improve community relations in the community, to promote its image, its schools, and to improve citizen services.

Our most recent housing effort in Cleveland Heights has been to buy two-family homes owned by absentee landlords which we are rehabilitating and selling as condominiums in order to increase a sense of ownership responsibility. We want to demonstrate that it is possible to rehabilitate a few rundown homes and thereby stimulate a change in the entire face of the neighborhood.

We believe that we can do this in the long run without Government subsidies. All that needs to be done is to begin the process and prove that it can be done. To help us in this work we have secured grants from the Cleveland Foundation, the George Gund Foundation, and from the community development block grant funds available from the city of Cleveland Heights, and we have put our own endowment funds into the program as well.

This is just one important example of a partnership that is possible between the public and private voluntary sectors that can result in a healthy, vibrant, integrated community—a good place to live. This public-voluntary partnership is a theme to which we will return later in our testimony.

In the area of housing for older persons we currently have in our system of services 337 suites and have under construction 100 additional suites. Mr. Hoffman will be specifically commenting on this in a moment, but I want to indicate the breadth of our operations and to underline more importantly the way in which our various programs fit together.

We do not offer any service in a vacuum. Our housing programs are linked to our community development efforts, and the people who live in the homes and apartments under our sponsorship are linked to services sponsored by our federation.

The federation and its agencies operate on revenues derived from private contributors, fees for services, and Government funds. I believe that our programs represent one of the best examples of the way in which the Government and the private sector have been able to accomplish more for people than either could accomplish alone.

We have established an infrastructure with private dollars and "sweat equity." We have secured Government funds for the services we provide to persons eligible for Government support—whether through medicaid, title XX or other programs. It is for this reason that we appear before you today to strongly urge that more, and certainly not less, be done in the provision of section 202/8 housing for older persons and the handicapped.

It is a way of preserving their lives with hope and with dignity. At the same time, it is a way of performing this task with far fewer dollars than other alternatives offer, and Steve will talk about this again.

As a leader in the Jewish community of Cleveland, I have seen what we have been able to do with the help of Government in the area of housing for older persons. The importance of adequate housing in this area cannot be overstated. It impinges on all other

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aspects of the lives of these people. It, as much as anything we can do, speaks to our responsibilities and our values as Americans.

Now, Steve.

STATEMENT OF STEPHEN HOFFMAN, DIRECTOR OF SOCIAL PLANNING AND RESEARCH, JEWISH COMMUNITY FEDERATION OF CLEVELAND

Mr. HOFFMAN. I too appreciate having this opportunity to address this issue. We are fully in agreement with the recommendation of the White House Conference on Aging in 1981 that called for a minimum of 20,000 new section 202/8 units per year. We support this goal because we recognize the great need for this type of housing based upon our own experiences in Cleveland and as a result of our reading of national statistics.

We, therefore, strongly oppose the proposed reduction to 10,000 units that is contained in the present budget proposal. The loss of 7,500 units from current levels would be a tragedy. The housing made available from the section 202 program has preserved and improved the quality of the lives of senior citizens across this country, lives that otherwise would have been economically destroyed.

The availability of subsidized housing sponsored by non-profit organizations under the 202 program has made it possible for America to deal with the new realities of demographics of older persons. Twenty years ago, one tended to classify older persons needing help as over the age of 65, physically or mentally impaired, and probably destined for an institution where his needs would be met.

Because of advances in medical science, a substantial segment of the over-65 group has been spared the great health problems of the past. Their problem boils down to economics—that for them is the difference between life and death. For many, subsidized housing has become the alternative to institutionalization or deterioration. We believe that federally subsidized housing is by far the better value socially and economically.

Section 202 housing has frequently made a major impact on the quality of life of our senior adults. In large measure this is because of the services that non profit organizations have been providing along with the shelter. These services includes meals, housekeeping services, and social programs. The congregate living style of the 202 program has enabled older persons to interact with their peers in a secure environment, one in which they know they are looking out for each other and thereby are better able to maintain independence. In a sense, the 202 program promotes self-help among older persons.

A major positive aspect of the economics of the subsidizing housing is often overlooked. This housing undoubtedly delays, and often avoids, institutionalization in nursing homes. The average per capita subsidy at our subsidized buildings is approximately $5,000 to $6,000 a year. However, if these people had no alternative but to live in a home for the aged, and were supported by the medicaid program, the same subsidy provided for them could cost between $18,000 and $20,000 a year. Where this develops, the savings to the Government is probably at least $13,000 per person annually.

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Our experience in Cleveland in this regard has been gained through the operation of two programs in our system of services. One building is called Council Gardens, run by the National Council of Jewish Women. It has 130 suites and was built under the original section 202 low-interst loan program. An addition was recently opened under the present program.

The average age of the person living there is 82. Ten percent are over 90. While everyone is able to function independently, a few residents have some moderate disabilities. There are programs with meals and social activities, as well as shopping assistance and the availability of a nurse for emergencies.

Our newest building is called the R. H. Myers Apartments. It is affiliated with one of our homes for the aged, Menorah Park. This is an interesting program. The building was built with a section 236 program mortgage guarantee. It has 207 suites; however, only 20 percent are section 8 subsidized. The remainder are available at market rates.

In addition to providing shelter, the R. H. Myers Apartments also requires each resident to participate in a daily meals program and a housekeeping service. The average age of residents here is 81½. All residents are able to live independently, although there are many with significant disabilities.

The R. H. Myers Apartments is an outstanding example of how it is possible to achieve a socio-economic mix of older persons that benefits everyone. We have no doubt that many of the residents in the R. H. Myers Apartments would be in homes for the aged if this building and services did not exist. Let me cite a couple of examples of people who have been helped through these programs.

At Council Gardens there is a resident who has lost two legs to diabetes. He is being supported on SSI. Before moving to Council Gardens, he lived in an old house with a bathroom on the second floor, where he had to crawl upstairs to toilet himself. Now he lives in a special handicapped suite in a barrier-free building. He is able to come and go as he pleases, cook for himself, and engage in activities. Services provided at Council Gardens and through our system of services, plus the subsidy from the section 202/8 program, have made a world of difference to this person.

Another woman at Council Gardens is 39 years old and handicapped. As a child she was autistic and she did not speak for 20 years before moving into Council Gardens. She had been living in an illegally converted third-floor room in an old house in a Cleveland suburb. Since moving to Council Gardens she has begun to speak again and is now working in a sheltered workshop sponsored by a local vocational agency. She regularly attends programs at the Jewish Community Center and interacts, along with her fellow tenants, with the more than 3,800 senior adults who make use of the activities there from week to week.

Council Gardens is next door to our Jewish Community Center. The residents there, as well as other senior adults, have the opportunity to swim, to engage in discussion groups, craft programs and similar activities that add purpose to their lives. No one has to feel they are locked in and must stare at four walls. Similar programs are offered to the residents of the R. H. Myers Apartments for the nonsubsidized as well as the subsidized suites.

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At the R. H. Myers Apartments we have an example of a couple who before moving there lived in severely dilapidated housing in the city of Cleveland. The couple was afraid to go out of their apartment. The rent they had been paying used up almost all of their income. They spent their days alone, eating poorly. Today they are active participants in the activities sponsored by the tenants' association. Their whole life has been turned around.

Another person living at the R.H. Myers Apartments was a teacher for many years on the west side of Cleveland. She has no family. Her apartment cost consumed more than half of her income. Due to partial blindness, she remained secluded in her apartment in her retirement years, even though she was physically healthy. Her move to the Myers Apartments enabled her to become a vibrant person. Because of the subsidy, she can better manage her money. She is eating properly and she is productively engaging with people around her.

At Council Gardens the average income of the tenant is $428 a month or $5,136 a year. The 202 program enables the tenant there to have a safe, clean, dignified environment at a cost that does not destroy them.

There is a tremendous need in Cleveland for more housing of this kind. Our federation has studied housing needs in the Jewish community. Several years ago our research department conducted a study of the 10,000 Jewish aged in Cleveland. We found that almost one-quarter of those over 65 were moderately to severely impaired economically. Fourteen percent of our older Jewish population believed that they would need to move for financial reasons. Half have no children or no children living nearby. One-third live alone and for these people there exists no social or economic support. Forty-five percent of the aged were estimated to have incomes under $10,000 and 20 percent under $5,000 per year.

We did a survey 3 years ago that indicated that over 1,000 Jewish persons are known to be in need of and qualified for subsidized housing in addition to those currently living in the subsidized facility. We, therefore, created Jewish Community Housing, a nonprofit corporation, to help stimulate more subsidized housing and received a HUD loan to build 100 units now under construction.

But the need continues. Council Gardens has a waiting list of 240 people. The R. H. Myers Apartments has a waiting list of 300 for its 42 subsidized units, and over 100 for its market-rate units at a time when the regular market in Greater Cleveland is experiencing vacancies.

For the building we are now constructing we have over 650 waiting for the applications. This is all due to word-of-mouth and stories that have appeared in the newspapers over the past year. We estimate that more than double that number will seek applications when we begin the formal advertising phase.

The Cuyahoga Metropolitan Housing Authority, our public housing authority in Greater Cleveland, has 7,000 suites in 25 buildings for older persons, with a waiting list of over 1,400 people. Here, too, the waits are for years. In suburban Cleveland alone there are 3,800 elderly on waiting lists for various subsidized buildings, even though 2,100 suites have been built in Cuyahoga County during the last 4 years. Yet under the plans projected by the administration,

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there will only be 325 new suites available for the entire State of Ohio, in the face of the need for thousands.

Nationally, the picture is very similar. Today one in every nine Americans is over the age of 65 and this will grow to one in eight by the year 2000. Thirty-eight percent of the population is over the age of 75 and by the year 2000 they will represent nearly one out of two older persons.

The income of older Americans is about half that of the under-65 population, and elderly Americans are disproportionately reprsented among those that are in need of federally assisted housing. More of them are poor and thus unable to afford suitable private housing. Elderly poor are often in worse economic straits than the non-elderly poor, partly because they are less able to find work to augment their inadequate income. Further, the elderly are more likely to have expenses for health problems.

We believe that the section 202 program is an important way for the Government and our country to respond to these needs. It is also a way for the Government and the private sector to work together to improve the quality of life of older persons.

I have repeatedly pointed to the way we do more than just provide housing. We go beyond bricks and mortar. We provide services to people as well. We provide for meals. We provide for stimulating recreational activities and we have avoided premature, costly institutionalization. All of this is the result of careful planning by citizen-led organizations like our federation, doing a meticulous planning job, integrating existing services to the elderly with housing programs, and using private funding in partnership with government subsidy. It is truly a model of the American way. Subsidizing housing for those with real economic need should be encouraged and expanded.

Thank you.

[The prepared statement of Mr. Hoffman, on behalf of the Jewish Community Federation of Cleveland, follows:]

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Jewish Community Federation
of Cleveland

March 23, 1982

STATEMENT BEFORE THE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT OF THE HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS ON FISCAL YEAR 1983 AUTHORIZATION FOR SECTION 202/8 PROGRAMS

March 25, 1982

Stephen H. Hoffman, presenting

My name is Stephen Hoffman and I am the Director of Social Planning and Research of the Jewish Community Federation of Cleveland. I, too, appreciate having this opportunity to address this issue. We are fully in agreement with the recommendation of the White House Conference on Aging in 1981 that called for a minimum of 20,000 new Section 202/8 units per year. We support this goal because we recognize the great need for this kind of housing, based upon our own experiences in Cleveland and as a result of our reading of national statistics. We, therefore, strongly oppose the proposed reduction to 10,000 units a year that is contained in the present budget proposal. The loss of 7,500 units from current levels would be a tragedy. The housing made available from the Section 202 program has preserved and improved the quality of the lives of senior citizens across this country; lives that otherwise would have been economically destroyed.

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Because of advances in medical science, a substantial segment of the over-65 group has been spared the great health problems of the past. Their problem boils down to economics -- that for them is the difference between life and death. For many, subsidized housing has become the alternative to institutionalization or deterioration. We believe that federally subsidized housing is by far the better value -- socially and economically.

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-- Almost one-quarter of those over 65 were moderately to severely impaired economically;

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-- Fourteen percent of our older Jewish population believed that they would need to move for financial reasons;

-- Half have no children, or no children living nearby; one-third live alone; for these people, there exists no social or economic support;

-- Forty-five percent of the aged were estimated to have incomes under $10,000, and twenty percent under $5,000 per year.

We did a survey three years ago that indicated that over 1,000 Jewish persons are known to be in need of and qualified for subsidized housing, in addition to those who currently live in a subsidized facility. We, therefore, created Jewish Community Housing, a non-profit corporation, to help stimulate more subsidized housing, and received a HUD loan to build 100 units now under construction. But the need continues. Council Gardens has a waiting list of 240 people. The R. H. Myers Apartments has a waiting list of 300, for its 42 subsidized units, and over 100 for its market rate units at a time when the regular market in Cleveland is experiencing vacancies. For the building we are now constructing, we have over 650 waiting for the applications. This is all due to word-of-mouth and stories that have appeared in the newspapers over the past year. We estimate that more than double that number will seek applications when we begin the formal advertising phase.

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Nationally, the picture is very similar. Today:

-- One in every nine Americans is over the age of 65, and this will grow to one in eight by the year 2000.

-- Thirty-eight percent of the population is over the age of 75, and by the year 2000 they will represent nearly one out of two older persons.

-- The income of older Americans is about half that of the under-65 population, and elderly Americans are disproportionately represented among those that are in need of federally-assisted housing. More of them are poor and thus unable to afford suitable private housing. Elderly poor are often in worse economic straits than the non-elderly poor, partly because they are less able to find work to augment their inadequate income. Further, the elderly are more likely to have expenses for health problems.

We believe that the Section 202 Program is an important way for the government and our country to respond to these needs. It is also a way for the government and the private sector to work together to improve the quality of life of older persons. I have repeatedly pointed to the

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way we do more than just provide housing. We go beyond bricks and mortar: we provide services to people as well; we provide for meals; we provide for stimulating recreational activities; and we have avoided premature, costly institutionalization. All of this is the result of careful planning by citizen led organizations, like our Federation, doing a meticulous planning job, integrating existing services to the elderly with housing programs, and using private funding in partnership with government subsidy. It's truly a model of "the American way". Subsidized housing for those with real economic need should be encouraged and expanded.

Mr. GOODMAN. Let me close for a second, if I might. While we have focused on Cleveland and what we are doing in our federation in the Greater Cleveland area, we are really here today also representing the Council of Jewish Federations, which involves 210 such federations and approximately 800 social service agencies of the type we have discussed here this morning.

Thank you.

Ms. OAKAR [presiding]. Thank you very much for your excellent testimony. I just want to put on my aging committee hat for a minute. The members of the Jewish Community Federation have testified before our aging committee because, to my knowledge, there are no better programs for the elderly than the Jewish Community Federation offers. Your homes for the aged program is especially unique in the manner in which you have ambulatory care for people and care for people who have more intensive needs.

When you talk about the needs of the elderly in this particular program you know what you are talking about. You have done a superior job, as you pointed out, Mr. Goodman, relating the private sector moneys with Government kinds of programs. It is a very unique relationship.

Let me yield to my colleagues before I ask my questions, but I did want to make these points. We are really happy to have you as witnesses because you know what you are talking about.

Mr. Stanton.

Mr. STANTON. Thank you very much, Mary Rose.

Mr. Hoffman, I have to tell you that I think your statement may be to me the most meaningful statement I have heard in these series of hearings on housing. To a degree they more relate to the subject Mary Rose was talking about, referring to the aging, but what you have hit upon in your testimony in relationship to housing and getting the maximum amount of housing to those who need it—and in this case you are concentrating on the elderly—it is a problem that has bothered me for a number of months.

I am not sure that this must be nationwide, but it certainly is true in our own State of Ohio. A gap exists between projects similar to yours in east Cleveland, which in some ways I could compare to the care out in the country in Lake County, where we have an

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excellent home for the aged. It has been true historically and it is run now by a fellow by the name of Bob Johnson, who is a former mayor of one of our communities.

We got into a great discussion a month ago with him on what he felt is a growing concern, and that is the subsidy in 202 of about $5,000 or $6,000 a year. Under arrangements for that type of care in a nursing home you jump all the way, as you say, up to $18,000 to $20,000. It is the same out there as it is in Cleveland and that is a tremendous gap.

His point was that he cannot perform even the very minimal amount of care for his residents, there at the home. So I said well, why don't you get a nurse in? Well, you get into all kinds of complications and problems in moving from this type of care to fully hospitalized or semiambulatory nursing care, and fantastic costs.

You are alluding to much the same thing in the amount of money that we do save, in reality, in providing a little bit more medical care in these facilities.

I wonder, if I asked him to come see you—I am interested in this subject, to explore it a little bit further, this gap that seems to exist. He has done a medical care program—but it immediately jumps $5,000 or $6,000 and in many cases, of course, regrettably for that interim case, it is far less desirable for that particular elderly person. It is just a big step down for him, in fact.

So I think we should really pursue this a little bit more and get him further facts and information from HHS. So, if it is all right with you, I will have him get in touch with you and, once again, many thanks.

Mr. HOFFMAN. Thank you. We would be delighted to be of any assistance that we could be.

Ms. OAKAR. Thank you very much. Mr. Vento, did you have a question?

Mr. VENTO. Well, Madam Chairperson, I do not know if I really have any questions. I guess I do have some, but I am just very, very pleased at the quality of the testimony. I just got through reading Bishop James Lyke's testimony from Cleveland. I think we face a unique time.

I think that this recognizes clearly the nature of the paradox in the Judeo-Christian ethic. I think this puts forth to us the challenge that we face and what the mission is that you have been fulfilling.

I, too, share your concern that you have developed an infrastructure based on the fact that there would be national programs and now that infrastructure seems to be dissipating or at least in a negative mode. You know, shouting aside, I think there have been a lot of questions and accuations back and forth about why we are here. But obviously if everything worked there would still be a question of fairness in terms of the economic policy.

But it is clear, I think, that even given the most optimistic type of budget that we would not be meeting all of those particular needs that you have identified. I guess you are not experts in housing, but in terms of telling us the magnitude of the problem I think you have stated it very well and what you feel your responsibility is and the national government's responsibility is to work with these problems.

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You know, we are struggling to look for new means to do this, but obviously, without resources and with the recession that nobody wants but we have, it is becoming increasingly difficult. I read with some interest the reference the bishop. made with respect to the fact that a car was parked in the Twin Cities area of St. Paul-Minneapolis, Minn.—the area I represent—and that the owner left a few blankets in there and people huddled in there to keep out of the cold.

Frankly, we have opened up centers for those without a place or shelter to sleep at night. We are dealing with a crisis right now. Is that true of the Cleveland area? Do we have these same types of problems occurring in other areas?

I see Mr. Hoffman nodding. Mr. Hoffman?

Mr. HOFFMAN. Those are the problems that exist. You just have to open the newspaper, unfortunately, and read about it. I think Congresswoman Oakar would know it even better than we.

Mr. VENTO. Well, I hope we can deal with that. Maybe we should look. Do you think we should take some of the limited resources that we are likely to be allocated here and try to deal with that? Would that be a priority over and above, for instance, section 8? What would you think?

Mr. HOFFMAN. I don't think we are in a position to suggest how to deal with the priorities vis-a-vis section 8. Our experience, frankly, is pretty much focused on housing needs of the elderly. We came today to emphasize our belief that cuts in the 202 program are not going to help the country socially and ultimately make bad economic sense for our government.

Mr. VENTO. You have worked with section 202 and some of these other programs. To your knowledge, have you had any difficulty? Do you manage projects? Is that what you do?

Mr. HOFFMAN. We have two buildings that our agencies manage and we have a third going up that we will also manage.

Mr. VENTO. May I direct a question to Mr. Belew?

Dr. Belew, I read your testimony. It is very good. Do you have contact with individuals that are also managing various types of assisted projects in section 8 or otherwise—202?

Dr. BELEW. Yes, sir, we do.

Mr. VENTO. Have you had the experience in any recent changes in the management being utilized, that is to say—I would hope maybe you could take this question back if you cannot answer it—in an instance where there is an effort where you have an archdiocese or an area where they have taken on an administrative responsibility, having difficulty with it?

This frequently happens with some assisted projects. Sometimes they get on the rocks in terms of the problems that come about. In fact, sometimes we find that they change from a co-op to a different type of management system because one did not work. Have you detected any change in policy which would seem to indicate a disinterest or disregard with regard to the new administration with regard to these projects? Can you identify any of those for us?

Dr. BELEW. I do not know of any projects that have been operated by the Southern Baptists that have come upon hard times due to mismanagement, not that we have perfect managers, but we are very cautious as we get into them.

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However, we do deal sympathetically with projects that are in trouble and have problems with management. I recently had conversation with Mr. George Rush from Houston, Tex., who had been working and worked previously with Leon Jaworski in development and building of some projects. Later some of these came across hard times in management. Now Mr. Rush, along with groups of laborers seeking to rehabilitate and take these over and provide adequate management—yes, there have been problems that we have observed. I do not know that I could pinpoint them.

Mr. VENTO. Yes. Well, the reason I just want to alert you to this is because I have had a project in my area which the archdiocese took over, a troubled project, and now it seems as though there is a push to decrease the direct Federal assistance and go to private syndication, make private partners a part of what has been a nonprofit function which obviously, if you take over any troubled projects or you know anyone who is doing that I would like to get a bigger picture of it than what we have.

But I think the concern I have is maintaining—at least maintaining—that which we have in terms of assisted low-income housing, much of it which could not be duplicated today without a tremendous investment all at once, and to sort of leave this slide away from being in public service to low income I think would be a great mistake.

We have a great battle, for instance, with HUD's efforts to sell off a lot of troubled projects and buildings and so forth. While it might be a good revenue raiser, it is probably going to be a disaster in terms of providing low-income housing. What they ought to do is get those things fixed up, get them on their feet, get them running.

I think that is the challenge to charitable organizations like yourselves, to say take those projects and go with them and give you every encouragement and every opportunity so that you can meet that with the least invesment. I mean, that is what we have available and I am afraid that we seem to be going in the opposite direction, that even those units that are now in assisted housing are being dissipated and spun off so that we do not have the responsibility in the long run.

Of course, that means less of a commitment and, you know, we talked about sections 8 and 202. We are talking 30 years. We also have projects, incidentally, which have run out the life of their contract, public housing projects, and others that have run out the life of their contract.

I think here again enters an opportunity for charitable nonprofit organizations, whether church related or not, to take over those particular responsibilities. But I think all too often if you look over the topography we have some winners in terms of public housing, assisted housing. They work. And we have, probably, some losers.

But I think all too often the private sector is ready to leave us with the losers, but they are glad to buy the winners for bargain basement prices and, of course, then they are converted into something that is not housing for low-income people.

So a couple of questions here and I hope that we can work with you. I very much respect and appreciate the fact that you have come forth and offered this testimony. I appreciate the great responsibility that you have assumed in voicing your concerns with

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respect to the direction of public policy and the needs of low income people for shelter. So we appreciate it very much and it will be very helpful for us as we try to sort through this issue.

Thank you, Madam Chairman.

Ms. OAKAR. Thank you very much, Congressman.

Let me point out on page 2 something that I think is very significant. Sometimes we get very penny wise and pound foolish and you point out that by providing for the economics of the subsidized housing program you are actually saving taxpayers' money because you are saving on the institutionalizing the elderly when these people simply need a good meal and a decent roof over their heads. I think that is a very fine point.

The other area that I would like to refer to is Menorah Park, which is such an ideal situation—the fact that 81-year-old people, or older, congregate in living circumstances, do much of their own housekeeping chores, and so on. I visited Menorah Park. It absolutely contributes to their vibrance and their youth to share in these opportunities.

Many of the people do have the expected disabilities and you provide the kinds of services that are necessary, and yet they are not in an institutionalization situation. You have really made it a home for people that they feel very much a part of.

My own feeling is that this kind of situation which works so well ought to serve as a model throughout the country. As my colleague from Minnesota points out, so often the management of these programs is where it's at and that's where the creative ideas originate.

In my own city—and I am sure this is not the case everywhere—I would just as soon get rid of the Cuyahoga Metropolitan Housing Authority—this is for the record—and allow private groups such as yourselves to assume the responsibility in conjunction with receiving the funds to do it.

You mentioned section 202. We are very happy to hear your expression of concern for those programs, your projects and concern for the fact that even when you build a project you have a waiting list which is exceptionally long. I would like to ask the panel a little more about the concept of shared housing.

I know in the Heights area, for example, many of the people who live in somewhat larger homes would like to stay in their homes, but usually utility bills are just beyond their means. What chance do you see for shared housing to add to, but not substitute for, existing programs? Do you see anything in that area working whereby an individual who would like to stay in his/her home could receive some kind of subsidy for having other older Americans, for example, who qualify, live in a congregate situation in a home?

Do you think that would work, or would we have to try pilot projects? What is your concept of this? Who would like to respond?

Mr. HOFFMAN. We are exploring it now. I made reference to the Jewish Community Housing. Its original purpose was to organize itself to be eligible for section 202 programs. However, thinking about the fact that the gentleman from Minnesota mentioned, there is not a limitless pot in the amount of money that has been available. We have been exploring other options for how to help older persons as well, and we have a special group that is looking into the shared living idea.

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We met recently with a staff member from the Ohio Commission on Aging and looked at examples of this kind of housing taking place around the country. You may know Sid Specter of our community, who is chairing our group. He has an avid interest in this area. We will make something happen in this realm.

If there were variations on Government funding that would assist it, it would make it more possible. We intend to at least find a way on a pilot basis to make it possible without Government funds and I believe that the Jewish Federation in St. Louis has a pilot program like this involving about a dozen or so people where they share apartments in different parts of St. Louis.

It is an idea whose time is overdue and the assistance that might be forthcoming from the legislation you are introducing would be welcome.

Ms. OAKAR. We would like to ask you, Mr. Hoffman and Mark Talisman, who is a very fine director here, if you can cite examples. I know Mark has pointed out to me that there is a fine example in Washington, but one of the stumbling blocks is we have to get over the bureaucracy of thinking that once we have this concept the people who qualify lose their other Government programs, which is disincentive for them to participate in what is a logical idea that might serve, at least in part, to ease the elderly housing crisis.

We are trying to fill a need and we are trying to get over that block by some language that would help. If you have any examples we would love to have them for the record because of the Chair's and other Members' interest in this situation as an alternative.

Dr. Belew, do you have a comment?

Dr. BELEW. I think it is an excellent concept and we have explored it and will engage in it, whether the Government helps or not. I think it has an essential implication, particularly in connection with smaller churches.

Communities of people that have lived together and been together for a long time, if they should have an opportunity of community housing facilities where they could continue to be mutually supportive, it would be excellent.

I think that lay persons could be utilized in renovating existing housing, but I do think some basic funds are going to be needed to help accomplish this.

Ms. OAKAR. Well, thank you very much. I wanted to mention to the panel that Rev. Walter Fauntroy, who is a member of our committee, would like to put your statement, Dr. Belew, in the Congressional Record, and I will be putting in Bishop Lyke's, Mr. Goodman's and Mr. Hoffman's statement in the Congressional Record.

Thank you for your very important testimony.

Our next panel, and we appreciate their patience, is Rev. Stanley F. Knock, Jr., who is the Washington representative and secretary for the board of directors of the Inter-Religious Coalition for Housing; Dr. J. Terry Wingate of the American Baptist Churches, U.S.A.; Rev. Carlton E. Franzen, manager of the Muhlenberg Gardens Nursing Home in Jersey City, N.J., representing the Lutheran Housing Coalition; the Reverend Gerald Hopkins, Southern Presbyterian Church and chairman of the Fairfax County Housing Au-

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thority; the Rev. Lincoln S. Dring, Jr., president, Robert Pierre Johnson Housing Development Corp., United Presbyterian Church, U.S.A., Housing Committee, Community Ministry of Montgomery County, Interfaith Conference of Metropolitan Washington; and Mrs. Virginia Peters, who is the executive director of the Wesley Housing Development Corp. in Alexandria, Va., representing the United Methodist Board of Churches and Society, Division of Human Welfare.

We are really very pleased to have such a distinguished panel testify. I would like to ask Reverend Knock to proceed in whatever manner is comfortable.

STATEMENT OF REV. STANLEY F. KNOCK, JR., WASHINGTON REPRESENTATIVE AND SECRETARY FOR THE BOARD OF DIRECTORS, INTER-RELIGIOUS COALITION FOR HOUSING

Mr. KNOCK. Thank you, Madam Chairman. My name is Stanley Knock. I am secretary of the board of directors of the Inter-Religious Coalition for Housing and Washington representative of the coalition. We represent 17 national religious groups and over 3,000 individual members. We have one or more aspects of housing ministries as a major concern and we meet regularly to coordinate our respective ministries and develop a cohesive program of such ministries for our constituents at the national, regional, and local levels of the country.

Also, for the past 8 years I have served as the housing consultant of the National Division of the Board of Global Ministries of the United Methodist Church headquartered in New York City. In that capacity I have worked directly with many regional and local groups in developing their specific housing ministries directed at the alleviation of a multitude of housing problems all across the country.

Before that, I served as the founder and president of the Commission on Housing and Community Development of the Baltimore Annual Conference of the United Methodist Church here in the middle Atlantic region.

All of this is simply by way of identifying that I have worked for over 16 years for the direct implementation of specific housing ministries at the community level, as well as for the development of many of the existing housing and community development laws passed at the Federal and State level. I have also authored a book, "Housing Costs and Housing Needs," in conjunction with the late Alexander Greendale, which is still in print as a basic resource in the field.

Furthermore, I serve as the president of the Council of Churches of Greater Washington. I am pleased to say that the Council of Churches operates two large 300-bed shelters for homeless men in the District of Columbia every night as a part of its housing ministry.

My purpose today is to lay before you a basic statement that it is the social justice issues which undergird the development and maintenance of the housing laws of this Nation, and to plead with you not to let these policies be eroded or emasculated.

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It is all too easy to get caught up in the specifics of particular programs and to miss the basic issue that we have a national commitment to see that persons are housed in safe, sanitary, and decent housing as a basic right to their citizenship in the United States and as a basic human right as the children of God.

At its heart, the present debate must be seen as a social justice issue. To divert our attention primarily to specific programs or mechanisms, as important as they are, is to miss the basic point of the issue; namely, vast portions of our population are severely ill-housed and deserve better treatment and greater concern by their fellow citizens.

A radically altered situation has come into being as regards Federal housing programs. Up to now there have been numerous opportunities for local people to be involved in various housing ministries. They could sponsor elderly housing and undertake various types of rehabilitation projects with Federal financing assistance. They could work with local housing authorities and other groups to see that people in need of public and subsidized housing knew how to receive these benefits. It was even possible to monitor the community development block grant program and its housing assistance plan to be sure these funds are being spent to benefit individuals and families in need of better human shelter.

But it is the clear intention of the present administration in Washington to change all of that radically. They intend to use every procedure at their command to dismantle every Federal housing subsidy program they can attack. It is no longer a question in their minds of cutting out the waste or abuses which they think might exist.

Rather, they are seizing every opportunity to eliminate entire programs such as elderly housing, rental subsidies, various Farmers' Home Administration programs, and public housing programs. They are seeking to change the course of history which has developed in this country during the past 40 years as regards the Federal role of striving to guarantee safe, sanitary, and decent housing for all of our citizens. It is their goal to leave the providing of housing to the private market sector, which means that if you have money you can buy what you can afford, and if you do not have the money you are out in the cold.

It is a cruel untruth to claim that those who are truly in need will not be hurt. For if the proposal to dismantle the entire Federal housing program activity succeeds, it will be exactly those in most need who will suffer the most since they will not have the resources. But in truth everyone will suffer since there is an expanding population and a declining supply of housing for all sectors of the population.

There is no evidence that interest rates will lower significantly. Rather, there is every reason to believe that interest rates will remain at unconscienably high levels for the foreseeable future. Since that is one of the most expensive elements of securing housing, the lack of any kind of subsidy for those at the lower end of the economic ladder will mean no housing can be secured in the private market.

Rental housing is already largely being abandoned by the private market producers and owners—because that is what condominium

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conversion is really all about—so there is every likelihood that there will be a greater shortage should the various rental assistance plans be terminated as the Senate Republicans have suggested.

The issue is now that housing for the elderly, the poor, the handicapped is one of social justice. Since the religious community has always sided with those in need, and frequently raises the cry of social justice on behalf of those whose needs are being abrogated, once again we have our task set out before us. It is the main item of business on the religious community's agenda now.

The Inter-Religious Coalition for Housing has been responsible for assisting more than 400,000 families to achieve more adequate and affordable housing during the past 16 years, primarily by sponsoring nonprofit housing corporations at the local and regional levels under such programs as 221(d)(3), 235, 236, section 8 and especially for the elderly under the section 202 program. This is an enviable record for the religous section of our Nation.

But it is a very small beginning, and we are prepared to increase it many times over if the existing mechanisms are adequately funded. The need is so very great that even if every possible resource were made available the need would still not be adequately met. We are prepared to do our utmost, but much more needs to be done through the various program incentives which are currently on the books and which could be added.

But what is really needed is a national commitment which is unwavering and not subject to the policy winds of philosophical argument. As long as our poor people and middle-income people, the elderly and handicapped people, and our young people cannot even afford to enter the housing market as renters, to say nothing as purchasers, something is basically wrong with the supply and distribution system of housing in our country.

We need to remedy that situation. As long as thousands upon thousands of people roam our city streets as truly homeless, with literally no place to lay their heads each night, then something is basically wrong with our society which needs correcting. It is to that change that I wish to urge your attention.

My concern is based in large part upon the housing statement which the United Methodist General Conference adoptod in the spring of 1980 as its basic housing statement, and one which I feel needs to be at the heart of all of our deliberations. For the same of economy of time you will permit me to quote portions of it:

> The scriptures look ahead to that ideal day when all persons will enjoy pleasant, peaceful and secure shelter. In many portions of the gospel, we find Jesus seeking out homes for retreat and renewal, for fellowship and hospitality. All persons are entitled to dwelling places that provide for privacy and recreation.
>
> The Social Principles of the United Methodist Church declares: "We hold governments to be responsible for guarantee of the right of adequate shelter." We affirm this right as well as the assertion of the 1972 General Conference that "housing for low income persons should be given top priority". Love of neighbor demands that we care about how adequately our neighbors are sheltered.

Whether it is at the local, regional, or national level, the religous community stands prepared to do its full share in meeting the shelter needs of its neighbors. But it cannot, repeat, cannot do it alone, as some have suggested recently. The need is just too great; the technical problems of providing housing in its many multiple forms

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of construction, financing, management, and occupancy require a comprehensive and cooperative partnership between the religious community and the forces of the marketplace and the various arms of Government.

It is a team approach which is called for, one which uses the strengths of each of the components and together builds the necessary housing. And it is the latter point which seems to need stressing today; namely, housing needs to be built in enormous quantity to meet the needs of people. There is no such thing as an adequate supply of housing, either rental or purchase, for the majority of the low-income people of this country.

The religious community stands ready to do its share in adding to that supply, but it needs the cooperative assistance of financial institutions, local communities' legislative and administrative agencies, and the Federal Government. Give us that cooperation and we will do our part, as we have been doing for the past decade and a half and long before that, if one counts the independent efforts of homes for the aging, nursing homes, and even, in ancient days, alms houses.

What is needed today is a sense of national commitment to the principle that this partnership must be developed, strengthened and expanded to a level adequate to meet the needs of our people. It really is a matter of will power.

In the face of affluence we need once again to heed the admonition of the parable of the Good Samaritan, that when we see the bandit's victim lying in the ditch we are called upon to go and give, in the apt words of J. B. Phillips' translation of the scripture, "practical sympathy."

We need to invest our time, our money, and our personal concern to correct the wrong which has been visited upon our brother, and to set the injustice aright. In the case of housing, we need to provide adequate shelter in its many forms, and we need to do it now.

Thank you very much, Mr. Chairman.

[Mr. Knock submitted a pamphlet adopted by the 1980 General Conference of the United Methodist Church entitled "Housing":]

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Housing



Adopted by the 1980 General Conference of the United Methodist Church

The scriptures look ahead to that ideal day when all persons will enjoy pleasant, peaceful, and secure shelter under their own vines and fig trees and "none shall make them afraid" (Micah 4:4).

In many portions of the gospel, we find Jesus seeking out homes for retreat and renewal, for fellowship and hospitality. All persons are entitled to dwelling places that provide for privacy and recreation.

The Social Principles statement of The United Methodist Church declares: "We hold governments to be responsible for. . . guarantee of the right to adequate. . . shelter." We reaffirm this right as well as the assertion of the 1972 General Conference that "housing for low income persons should be given top priority. . ."

There are 75 million occupied housing units in the United States. Of these seven million are seriously substandard; another 25 to 30 million are marginal for human habitation. Furthermore, four and one-half million US citizens are paying more than half of their income for housing. The need for adequate housing at affordable costs abounds.

Love for neighbor demands that Christians care about how adequately their neighbors are sheltered. Christians should identify with those who suffer daily from a shortage of available, decent, safe, and sanitary housing. There are many levels and forms of deprivation. Nearly every American town and city has its "street people," those who live literally without any form of shelter, carrying their entire possessions with them in a few shopping bags.

Millions of families huddle together in densely over-crowded apartments, rural shacks, ancient house trailers, converted warehouses, and condemned or abandoned buildings. At least seven million of our fellow citizens are forced by our society to live in intolerable housing because the remainder of us fail to recognize their plight

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or simply do not care enough.

Yet hundreds of United Methodists are engaged in a heroic battle to change such intolerable housing conditions. We commend every such individual, local church, interfaith group, non-profit, for-profit, and government effort. We endorse with gratitude and appreciation the thousands of dollars and untold hours of voluntary service which United Methodists dedicate to this battle to improve human shelter in our country. We urge local churches, districts, and annual conferences to strengthen every housing ministry taking place within their communities by providing additional financial, technical, counseling and spiritual resources.

Many specific activities deserve greater United Methodist support.

A. At the local level

Local churches, individually or in cooperation with other churches, can identify specific housing needs existing in their communities. Often bringing people in need of shelter to public consciousness is the first step toward alleviation of such need. Sometimes the use of existing church buildings can graphically demonstrate both the need and a solution which then can be developed more fully through the use of other facilities and financial resources. Examples of effective housing ministries include emergency housing, ministries of acceptance to "street people," various housing counseling services, location of available apartments and housing for rental or purchase, supporting tenants by providing meeting places and leadership, and providing technical expertise for organizing more substantial efforts to meet various specific housing needs.

Formation of non-profit and limited-dividend housing corporations or housing cooperatives is a viable approach in many situations. There are excellent opportunities for establishing housing construction, management, and advocacy programs. However, expert consultative and technical services generally are needed from the very earliest concept onward. We commend the Board of Global Ministries, National Division, for provision of such services for the past decade and a half (Par. 1532.14, 1976 Discipline), and urge United Methodists to seek out such services at every stage of development of any housing ministry.

B. At the regional level

We deplore the atmosphere of conflict which infects the relationship between cities, towns, suburban areas, counties, and states throughout our nation. Too often competition for use of land clothes subtle racism. Economic profit, likewise, often is used to justify a lack of concern for the impact of taxation measures. Uncoordinated planning and development results in jobs being located beyond the reach of those most in need of work. The "trickle down theory" of housing occupancy masks a selfish motivation, and results in maintaining and expanding existing ghettos, causes the formation of new ghettos, and enforces negative attitudes that support class and racial segregation. We urge United Methodists to challenge all such practices of, and to engage in every activity which can eliminate such vestiges of, discrimination from our nation.

Every urbanized area in our country is required to have some form of a regional planning agency. Most rural areas have some similar agency, such as an area development district. Generally these political structures have considerable influence upon housing patterns, planning, production, and usage. Most can have citizens' advisory groups which develop strategy proposals and monitor private and governmental housing activities. We urge United Methodists to become knowledge-

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able of, and involved in such planning agencies. Whether serving as political appointees, elected representatives, professional staff, or designated "citizen advisors," a substantial contribution can be made toward developing realistic and morally just housing conditions by active participation in such regional agencies.

C. *At the national level*

Since the enactment of the National Housing Act of 1949 it has been the goal of this country that every citizen should be housed in "decent, safe and sanitary housing." Yet the reality is that we are farther from that goal today than ever before. In part this is due to growth of population and the ever increasing gap between those who are economically well off and those who are not. But in large measure the disparity is due to an unwillingness of our elected representatives to use tax revenues in ways which would achieve the goals more fully. Generally legislators feel they represent the views of their electorate, and receive very little support for using tax dollars to build more housing for low and moderate income families. The moral commitment first stated in 1949, and restated in every subsequent Housing Act by Congress (1959, 1968, 1974, 1978) has gone greatly unheeded. If "decent, safe and sanitary housing" is to be a citizen right, a much greater moral outcry must be heard.

Therefore, we call upon United Methodists to undertake a concerted effort to impress upon their elected representatives a profound concern over the continuing housing deficiencies existing in our cities, towns, and rural areas. Much more effort needs to be made to influence the legislative processes which impact housing issues: improving existing law, developing more imaginative approaches where possible, and providing adequate funding for housing designed to meet the needs of the ill-sheltered.

1. Subsidized rental housing (Section 8) and Public Housing

Under the Section 8 Housing Assistance Payments Program, normally renters pay a percent of their income for rent and the federal government makes up the difference between that and the HUD-established Fair Market Rent. We support this program for subsidizing rents as one way of opening up more housing units to low-income families and yet expecting such families, when possible, to provide their fair share of costs. We ask that this program be substantially expanded to include at least 600,000 units annually, which is the minimum needed to house our poorest citizens.

We support use of a wide variety of subsidized housing approaches in order to meet a greater demand to house needy people.

Public housing continues to be a vital necessity in both urban and rural areas. Every incorporated city, town, and county can and should use this means of providing well-constructed and well-managed rental housing for those who cannot obtain it on the open market. Nearly 50 percent of all public housing now is occupied by the elderly. Since the church has traditionally expressed concern and provided care of the aging, it is especially crucial that this program be continued, expanded, and adequately funded.

2. Fair Housing

We support the Social Principles statement asserting "the right of members of ethnic minorities to equal opportunities . . .in housing purchase or rental."

Fair housing in our nation has progressed at a plodding pace. Because housing remains segregated in most places in the United States, schools tend to be segregated and jobs tend to be located at inconvenient

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distances from ethnic minority neighborhoods.

We therefore call upon the US Congress to provide the Department of Housing and Urban Development with "cease and desist" enforcement powers and we encourage HUD to apply these powers evenly and with relentless determination to assure equal access to affordable housing in all markets.

Also, we are well aware that there can be no fair housing if the overall stock of housing is in short supply. Equal access to no available housing represents an unrealizable right. Therefore, to fulfill equal opportunity objectives we urge that much more housing be built and offered at prices most ethnic minority persons and the poor can afford to pay.

3. Redlining

We deplore the practice of "redlining" as it occurs in many urban areas. This generally means that financial institutions, insurance companies, and mortgage brokers collectively make if difficult for homeowners to secure adequate financing and insurance at reasonable rates in a certain neighborhood of a given urban community. Such questionable business practices inevitably hasten the decay of targeted neighborhoods. Thus they are marked for death. We ask that all steps necessary be taken, through negotiation and legislation, to eliminate this heartless practice and that churches take the lead in encouraging financial support arrangements that rejuvenate neighborhoods instead of destroying them. Vigilant monitoring by the religious community can forestall such unhealthy practices.

We support existing laws, such as the Home Mortgage Disclosure Act, which provides public information on where banks and savings and loans make their loans, and the Community Reinvestment Act, which mandates that banks and savings and loans have the responsibility to serve the credit needs of moderate and lower-income communities.

We urge assessment of whether the institutions in which the church deposits funds comply with the Home Mortgage Act; and we support such additional regulations and laws that will assure reinvestment in currently redlined communities, in a way that will not result in unjust displacement of elderly, poor, ethinic minority, and other persons.

4. Housing for the Elderly

The Section 202 federal program is a bright spot in the otherwise dismal picture of housing for the elderly. Restricted to sponsorship by non-profit groups (the majority of which are related to some religious group), the 202 program continues to offer a direct ministry opportunity. Since it is a loan guarantee program and has limited impact upon the federal budget, it should be funded at much more realistic levels than in the past. The steady increase in age of our population argues for expanding the 202 program until the need for this type of rental housing for the elderly has been met.

We are greatly concerned over the rapidly increasing trend toward converting rental housing to condominiums for sale. Too often in practice this means pushing elderly people out of housing they can afford to rent but can't afford to buy. We, therefore, recommend that the rate of condominium conversion of rental units be slowed. Further, we urge local housing authorities to offset this bind by encouraging increased housing stock of subsidized rental units for the elderly under Section 202.

5. Housing for Native Americans

As in the case with regard to other aspects of our national policy and practices toward Native American tribes and the continued isolation of our fellow citizens on reservations, implementation of housing programs

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to benefit our reservation population has been woefully inadequate. We call for substantial increases in programs at the federal level, and the use of state and local housing programs in every possible way, so that the shocking level of reservation housing conditions can be changed quickly. Special efforts by United Methodist programs and funds for ethnic minorities should be supportive of such efforts.

6. Increasing Housing Production

Outmoded materials and procedures required by building codes often force housing costs up. Also, because of a wide variation in building codes in different communities, it is difficult to utilize mass-produced building units and components. Therefore, we recommend that city and county governments and the trade unions review building codes with the prospect of revising them to reasonable restrictions which will not stand in the way of utilizing factory-built housing. We also recommend there be instituted state or national standardization of building codes so that system-built homes and apartments can be produced on a substantial scale. Nevertheless, quality workmanship and materials must be guaranteed.

Building costs should encourage use of adequate insulation and passive solar or other innovative fuel-saving technology. Zoning codes should protect solar access for new construction and allow for the possibility of converting existing residential units to solar technology.

Substandard lot sizes and topography often are deterrents to constructing housing units on available urban lots. In such instances because manual labor must be used instead of machine labor, it is difficult for builders to earn a profit, and quality must be compromised to break even. Therefore, we recommend that the federal and state programs compensate for such site deficiencies through subsidies, and thus enlarge the housing stock by using lots that would otherwise add to the deterioration of a neighborhood. However, such use should not deny other possible needs, such as ajr space, recreational grounds, or other community amenities.

7. Financing of Housing

Traditionally, the vast majority of housing in our country has been financed through the private money-lending business. There is little likelihood that this would need to change if the traditional principles against usury are followed. But more attention needs to be given to developing ways mortgage money can be made available to low income persons for homeownership, to convert rental housing for homeownership, and to provide rental housing for low income people. Federal and state programs benefit the moderate and upper income segments of our population quite well, but there are not equally helpful programs for the lower income sector of the population. Such government subsidized mortgage programs need to be further developed. New methods of private financing need to be developed so that traditional money sources do not abandon the housing field for other more profitable forms of investment.

Where feasible, generous tax credits and loan subsidies should be made available from various political entities to builders, owners, and renters for the installation and use of solar energy equipment.

8. Neighborhoods and Communities

An emphasis upon neighborhood revitalization is sweeping the urban scene. It may also be offered as a panacea for deteriorating suburban areas. Even rural communities and cross-road towns face the temptation to use a "fix-up" approach to housing deterioration problems. There is much to be valued in retaining and restoring housing which is soundly constructed and can be expected to continue

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to be usable for years to come. Not only could it be somewhat less expensive, but such a process is a needed supplement to reduce pressures for the costs of new construction. But several pitfalls should be recognized. Changing types, sizes, and age levels of family units often make rehabilitation of existing housing more expensive than is justified by either the age of the building or the economic capability of the family. Often neighborhood revitalization is a less offensive term for displacement of families presumed to be less desirable, and so it becomes another type of class, racial, or ethnic discrimination. Likewise, maintaining "community" may often be little more than a cover for continuing various forms of ethnic and racial exclusiveness. We urge all citizens to be honest and realistic in assessing the value of any neighborhood or community development program and then to proceed with caution and objective responsibility in implementing rehabilitation and revitalization programs.

D. Role of the Church

A number of federal programs as well as some state programs exist today to make it possible for church groups to participate meaningfully in providing adequate housing in a wholesome environment. We encourage churches to join in such programs which require only a minimum of capital investment but a substantial commitment of time and energy. Churches should be aware that these programs are available to both urban and rural people. More church groups ought to 1) be concerned about the conditions of housing; 2) use the tools available to provide better housing; 3) develop a sense of mission and assume responsibility as stewards to meet these needs with no expectation of monetary reward.

In implementing any housing ministry, church people must maintain great sensitivity to community needs and work to achieve community participation and control. Needs of tenants for adequate, reasonably priced and energy-efficient housing should be recognized. Care always must be exercised to assure our involvement as Christians as "enablers" rather than "controllers." Our goal must always be to enable those who benefit to be in control of their own lives, future, and destiny. Whatever the form of community organization, housing production, management, or ownership, every effort should be made at each developmental step to insure that those who are being aided are afforded the opportunity, indeed required, to take every action necessary to self-direct the undertaking. Wherever possible, we must train rather than service, transfer power rather than decide, empower rather than control. In this as in all other aspects of housing ministries, United Methodists should seek the best technical guidance, and provide the greatest professional competence for such a ministry. Let us equip ourselves and provide the widest possible range of supportive assistance to individuals, congregations, districts, conferences, and all forms of cooperative groups sharing similar goals and policies, so that our fellow citizens may achieve as their right "decent, safe and sanitary housing" at the earliest possible time.

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Mr. VENTO [presiding]. Dr. Wingate, would you proceed with your statement? I just remind the witnesses that all of the complete statements will be made part of our official record. I appreciate your reading through them. It is very thoughtful. If you want to shorten it, we can get on with some dialog and that would be fine.

Chairman Gonzalez is on his way back. He is on the floor. He had to vote. We have two or three things going on at one time.

Dr. Wingate.

STATEMENT OF DR. J. TERRY WINGATE, HOUSING AND SHELTER COMMITTEE, AMERICAN BAPTIST CHURCHES, U.S.A., VALLEY FORGE, PA.

Dr. WINGATE. Thank you, Congressman. As a member of the Housing and Shelter Committee of the American Baptist Churches, U.S.A., relating to thousands of Baptists and Christians over the length and breadth of this great land of ours, we come to assure you that we support and endorse passage of H.R. 5731.

We maintain that there is a continuing need for this Government to support the Housing and Community Development Amendments of 1982 and share with you the great concern for extension of Federal laws to do so.

In 1956, 1957, 1958, 1959, and every year since, American Baptists have sought to lift the vision and effort of Government, the private sector and our own constitutency in working together to meet the unmet needs of housing and community development for the poor, elderly, and minorities of our land. We have called for, and will continue to call for, full elimination of the blighted conditions in housing and community improvement programs that remand God's children to an existence of poverty.

To some degree, the constant call for improvement has gone unheeded. Sure, there have been law enacted. Sure there has been money spent, But where enforcement or followthrough has not taken place, the provisions to those who need it most has not materialized. Now a new breed of federalist would even destroy the progress that has already been made. Shame on them for even suggesting this.

We commend the work of our Christian brothers and sisters on this committee for the development of H.R. 5731 for we are aware of the critical housing needs in our country. Our own resolution on fragmented society challenges us to be a part of that force that seeks to change communities that are divided into a variety of fragments.

We note that the white middle-class families in suburban developments, the poor in slums and housing projects, the elderly in high-rise senior and mixed developments and in retirement communities, racial and ethnic groups in confining and limited neighborhoods must not be forgotten, nor must they be hard pressed for survival because of budget cuts and other guidelines that leave them in a state of depression.

It is disturbing that the Washington Post, under its byline "The Federal Report," reported February 25, 1982, that the Department of Housing and Urban Development was moving to kill an estimat-

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ed 5,500 proposed housing units in 156 projects for the elderly and handicapped.

They gave nonprofit groups, which included some church-sponsored housing, just 10 days to notify them that they were ready to start construction within a month or their projects would be canceled. This illegal back-door attempt to rescind money and change housing policies without going through formal rulemaking procedures serves notice on us that there are other in the hopper and we must pass H.R. 5731.

Now HUD 202 is the only subsidized housing program that the Reagan administration supports in the fiscal year 1983 budget. Yet the guidelines that must be adhered to, that have been put in the pipeline, even Roto-Rooter could not clear in the time alloted.

HUD has not been faithful in its housing and community development programs. You Congressmen know that you have approved programs and projects that they refuse to fund. Granted, we have wondered if you sympathized with them. H.R. 5731 gets you off of the hook or, shall we say, brightens the light on your behalf.

In the great tradition of American Baptists there is a clear call to us as believers to deal directly with the needs of the poor. We maintain that Government has a continuing role to develop and enforce reasonable laws, rules, and regulations which facilitate the building and rehabilitation of safe, decent, and accessible housing without adding excessively to its cost, that just as you use eminent domain procedures to acquire properties for parks, monuments and for your own needs, that you use those same procedures to aid the construction of living space for the needy.

We also would say that you need to generate and provide those financial resources for construction and renovation, work in partnership with the private and nonprofit sector, encourage research and development that is positive through the use of appropriate incentives and awards.

Finally, American Baptists declare and support the basic necessities of food, shelter, clothing, and health care, the right to grow in mind and self-fulfillment, to secure an education, to develop knowledge, to exchange ideas, to receive, impart, and have access to information, to develop skills and abilities and to utilize those economic, political, social, intellectual, and religious institutions and to receive a just return for one's labor.

We believe in the right to human dignity, to be respected and treated as a person, and to be protected against discrimination without regard to age, sex class, marital status, culture, or condition in society. Especially do we commend you on the upgrading of section 101 emergency mortgage relief at a time when day-to-day foreclosures are sending the poor and middle class to those who lend money in an unscrupulous way.

In all of this God has no hands but your hands to do what must be done. Let me refer you to Psalm 68, verses 5 through 10:

God lives in His sacred Temple, cares for the orphans and protects the widows. He gives the lonely a home to live in and leads prisoners out into happy freedom, but rebels will have to live in a desolate land. O God, when you led your people, when you marked across the desert, the Earth shook, and the sky poured down rain, because of the coming of the God of Israel. You caused abundant rain to fall and restored your worn out land; your people made their home there; in your goodness you provided for the poor.

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Will this administration be allowed to do less?
Thank you.
[Dr. Wingate's prepared statement, on behalf of the American Baptist Churches, U.S.A., Housing and Shelter Committee, follows:]

Special Hearing on House Rule 5731 by the Committee to amend and extend certain Federal laws which establish housing and community and neighborhood development and preservation programs, and for other purposes.

Presented on behalf of the Housing and Shelter Committee for the American Baptist Churches, U.S.A., Valley Forge, Pa.

Dr. Robert Campbell, General Secretary
Mr. Kenneth George, Committee Chairman
Dr. J.Terry Wingate, Reporting for the denomination.

Thursday March 25,1982 9:30 A.M.
2128 Rayburn House Building, Capitol Hill

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Congressman Gonzalez, members of the committee, interested friends. Thank you for the opportunity and invitation to share in this hearing.

As a member of the Housing and Shelter Committee of the American Baptist Churches, USA, relating to thousands of Baptists and Christians over the length and breath of this great land of ours, we come to assure you that we support and endorse passage of H.R 5731.

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It is distrubing that the Washington Post, under its byline, "The Federal Report" reported Feburary 25,1982 that the Department of Housing and Urban Development was moving to kill an estimated 5,500 proposed housing units in 156 projects for the elderly and handicapped. They gave nonprofit groups which included some church sponsored housing just 10 days to notify them that they were ready to start construction within a month or their projects would be canceled. This illegal back door attempt to recind money and change housing policies without going through formal rule-making procedures serves notice on us that there are others in the hopper and we must pass H.R.5731. Now, HUD 202 is the only subsidized housing program that the Reagan administration supports in FY1983 budget....yet the guidelines that must be adhered to ....that have been put in the pipeline,even roto-rooter could not clear in the time alloted.

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1) Develop and enforce reasonable laws, rules and regulations which facilitate the building and rehabilitation of safe decent and accessible housing without adding excessively to its cost.

2) That just as you use eminent domain procedures to acquire properties for parks, monuments, and for your own needs, that you use those same procedures to aid the construction of living space for the needy.

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Finally, American Baptists declare and support the basic necessities of food,shelter, clothing and health care; the right to grow in mind and self-fulfillment, to secure an education, to develop knowledge, to exchange ideas; to receive, impart and have access to information...to develop skills and abilities and to utilize these economic, political, social, intellectual and religious insitutions and to receive a just return for one's labor. We believe in the right to human dignity, to be respected and treated as a person, and to be protected against discrimination without regard to age, sex class, marital status,

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> of Israel.
> You caused abundant rain to fall and restored your
> worn out land; your people made their home there;
> in your goodness you provided for the poor.

Will this Administration be allowed to do less?

Thank you.

American Baptist Housing and
Shelter Committee
J. Terry Wingate, Reporting

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Mr. VENTO. Thank you very much.

The minority member reminds me that the administration has modified their position on section 202, so there has been some change.

Reverend Franzen.

STATEMENT OF REV. CARLTON E. FRANZEN, MANAGER OF MUHLENBERG GARDENS, JERSEY CITY, N.J., REPRESENTING THE LUTHERAN HOUSING COALITION

Mr. FRANZEN. Thank you, Mr. Chairman. My name is Carlton Franzen. I manage Muhlenberg Gardens, a section 202 form of housing, not a nursing home as indicated on the agenda. I am here from the Lutheran Housing Coalition in support of the partnership between the Federal Government and the private voluntary sector in the area of housing for the low-income American.

In this regard we support the intent of H.R. 5731. One of our coalition goals is to convey to the National Government the concern of Lutherans regarding decent housing for all Americans. It is because of our concern about current threats to decent, affordable housing for the people in this country, especially people of low income that we present this testimony.

President Reagan's 1983 budget proposals made public last month represent a retreat from this country's longstanding commitment toward safe and decent and affordable housing. We are much concerned about the loss of this proposed housing. We are concerned about the continued rise in the way in which we are asking the people to pay for the housing that they are now enjoying.

The obvious flaw that we see in this present administration is trying to work with the limited availability of decent housing. If the Government removes itself from the subsidized housing construction business, as proposed, low-income people who can only afford such low-cost housing would be hard pressed to find it.

Affordability and availability are equally significant in meeting the needs of the housing of the low-income people and especially the elderly people. As your bill, H.R. 5371 addresses availability by providing short-term Federal assistance for construction and rehabilitation and as this bill speaks to the affordability for low incoming housing by maintaining this 30-percent income as a ceiling for rent payments, we support that bill.

A significant portion, as has been mentioned many times this morning, of the philosophy of the administration is to get more private sector involvement. However, within our democratic society we must call on all parts of the society to take their part, and that includes Government as well as voluntary agencies, churches, businesses, et cetera. We must all participate.

It is essential to reemphasize the fact that any curtailment of Federal commitment is certainly going to have a real impact on our ability to serve. If the Government abdicates its current supportive relationship with nonprofit providers in the area of housing for the poor and elderly there will be adverse consequences for low-income Americans.

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In the area of elderly housing, in which I work, the not-for-profit sector can point with pride to a significant commitment to caring and serving. Traditionally, charitable giving has augmented public resources for developing capital and meeting operating expenses of elderly Americans.

Muhlenberg Gardens, I believe, is a prime example of the partnership between Government and the private nonprofit sector. One of the reasons that I am here today is to give our appreciation of the Lutheran social services because you have enabled us to develop some 600 units of housing which we consider very fine housing in the State of New Jersey, and also bring the hearty thanks of the residents who enjoy this.

Perhaps that can best be demonstrated by a local pastor's report to me last week of the visit to a resident in the Sloan-Kittering Hospital in New York City where, through all the mazes of wire and tubes that were the life-support system of that resident of our housing project, the pastor approached with some trepidation. Our resident said, not to worry, pastor. I am sure God will not take me since she has given me such great housing in Muhlenberg Gardens.

We are finding that we really are concerned with the possibility of section 202 being used in a congregate service setting. We find, as others have mentioned before, that though we are in the nursing home business ourselves, we are anxious to keep people out of nursing homes, and this particular program allows people to, as you know, have nutritional meals served in a very social setting which adds to the quality of their lives and so we are suggesting that real attention be given to the section 202 program to continue to offer congregate services as a vital part of the chain of the options for quality living.

We look at aging as a way that somebody has mentioned it, with four stages: the go-go stage; the go-slow stage; the slow-slow stage, and the no-go stage, and that covers, we think, from the active retiree to the nursing home. We need to supply housing options at those levels.

We are not expecting 100-percent coverage of the housing needs, but we do need to fill in those gaps where they will not be covered by other housing projects, so we are interested that you have concerned yourself especially with that.

In forming the cooperative relationship between the Federal Government and the private sector, the section 202 program has created, we believe, an enviable record in housing. The Reagan administration's proposal for assisted housing clearly would not provide the continued services needed by America's elderly.

By dismantling the section 8 program and drastically reducing the funding for section 202, the administration is intending for this Nation to turn its back on the housing of our aged citizens by weakening the successful link with private agencies who have been providing the workable housing styles for persons through all the stages of old age.

Because 5731 would reauthorize section 202 and provide an acceptable alternative to the section 8 housing program, we support this alternative versus the harmful proposals outlined by the administration. More significantly, we applaud the subcommittee's

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initiative in seeking to maintain this Nation's commitment to housing its low-income people and especially the elderly.

Thank you, Mr. Chairman, for this opportunity to present these views.

[Mr. Franzen's prepared statement, on behalf of the Lutheran Housing Coalition, follows:]

Statement by Carlton E. Franzen
Lutheran Housing Coalition

on

"Housing and Community Development Amendments of 1982" (HR 5731)

Submitted to the

Subcommittee on Housing & Community Development

of the

Committee on Banking,
Finance & Urban Affairs

U.S. House of Representatives

March 25, 1982

My name is Rev. Carlton Franzen. I manage Muhlenberg Gardens, 150 units of elderly housing in Jersey City, New Jersey. I welcome the opportunity to testify on behalf of the Lutheran Housing Coalition in support of a partnership between the federal government and the private, voluntary sector in the area of housing for low income Americans, especially the aging. In this regard, we support the basic intent of HR 5731, the "Housing and Community Development Amendments of 1982."

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The Lutheran Housing Coalition coordinates the work of the American Lutheran Church, the Lutheran Church in America and the Lutheran Church-Missouri Synod in the area of housing development for low- to moderate-income families and the elderly. The Coalition works with Lutheran congregations and social service agencies interested in sponsoring, developing and managing independent retirement living facilities with supportive services for the elderly. One of the Coalition's goals is to convey to the national government the concerns of Lutherans regarding decent housing for all Americans. It is because of our concern about current threats to decent, affordable housing for people in this country, especially people of low income, that we present this testimony.

President Reagan's 1983 budget proposals made public last month represent a retreat from this country's long standing commitment toward assuring a safe, decent and affordable home for all Americans, regardless of their age. Proposed cuts in low income housing alone account for more than one-third of all fiscal 1983 reductions in budget authority. As members of this committee are aware, not only would the President virtually stop all new government-assisted rental housing construction, but hundreds of thousands of commitments for new or rehabilitated housing units already approved under Section 8 and public housing programs would be cancelled. Coming on the heels of a five percent increase in rent for tenants of government subsidized housing projects passed as part of the 1981 budget reconciliation, another rent increase is proposed for fiscal 1983 that would tie food stamps to the income of assisted housing tenants causing dramatic increases in the amounts low income people would be obligated to pay for rent.

According to Administration proposals, the major vehicle for dealing with the needs of low income people in search of decent housing would be government

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grants, or housing certificates averaging $2,000 per year. Families could use these grants to pay for any rental housing available. The obvious flaw in this plan is the limited availability of decent, affordable housing. If the government removes itself from the subsidized housing construction business, as proposed, low income people who can afford low cost housing would be hard pressed to find it. Affordability and availability are equally significant in meeting the housing needs of our low income and elderly people.

As HR 5371 addresses availability of low income housing by providing short term federal assistance for construction or rehabilitation of multi-family housing, and affordability of low income housing by maintaining the current thirty percent of income as a ceiling for rent payments by tenants, we support the proposed legislation.

A significant portion of the Reagan Administration's philosophy, not only for housing, but for all social services currently subsidized by the federal government, is the need for more private sector involvement. Through its budgetary and legislative proposals, the Administration is calling into question the government's role in the social area. However, within our democratic society, meeting the basic requirements of the poor, of children, the elderly, disabled, and others in need properly requires the commitment of the community as a whole. All institutions of society - from government to churches to voluntary agencies to business - should interact with each other in an effort to meet human needs.

As new relationships are being developed between the private, voluntary sector and the government, it is essential to emphasize that any curtailment of the federal financial commitment is certain to have an immediate impact on the private sector's capacity to serve. The successful government-private sector

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partnership, which has evolved through the social policies of this century, sends a clear message to those responsible for shaping the public policy of the future. If government abdicates its current supportive relationship with non-profit providers in the area of housing for the poor and elderly, there could be adverse consequences for low income Americans. In other words, to dismantle the nation's subsidized housing programs, as is proposed, is to weaken the time honored, successful public non-profit alliance.

In the area of elderly housing, which is my specialty, the not-for-profit sector can point with pride to its significant commitment to caring and serving. Traditionally, charitable giving has augmented public resources for developing capital and meeting operating expenses of elderly housing. Unfortunately, a proposed massive rollback in domestic funding, if realized, would place a great strain on these already limited community resources and we could see the growth of new housing options fall off dramatically.

Muhlenberg Gardens, the senior housing project I serve in Jersey City, is a prime example of the existing partnership between government and the private non-profit sector, in this case the Lutheran churches through Lutheran Social Services of New Jersey. One of the reasons I accepted the invitation to appear before you today was to convey the appreciation of our social service agency because it is through the Section 202 and 236 programs that we have been able to increase our services to so many people. Lutheran Social Services of New Jersey has been serving people of our state for 78 years. Among our programs are three other senior housing projects, three nursing homes and two "share-a-homes". I also come today bringing hearty thanks from the residents of our buildings.

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Muhlenberg Gardens is a Section 8/202 funded project with congregate dining services. We believe that the 202 program, as we have been allowed to develop it with congregate space, presents a vital link in the continuum of housing for our elderly. Our dining room and commercial kitchen make it possible for our residents to receive a major portion of their nutritional requirements in a social setting that adds significantly to the quality of their lives. This level of housing makes it possible for the residents to remain independent and not be moved prematurely to a nursing home. I am sure that you know too well the multiplication of costs that occur with that move.

Someone has divided the latter portion of our lives into four stages:

1. The "go-go" stage
2. The "go-slow" stage
3. The "slow-slow" stage
4. The "no-go" stage

To cover these stages from the active retiree to the nursing home, we need several housing options to match the changing needs of the individual. This cannot be done in the average American home, which was designed for an active family, not for growing old. Our elders are asking: "What is going to happen to me?" That should not be their concern, but rather it should be ours.

I am well aware that it is impossible to build housing for the 1600 people who daily join the ranks of those over 65. It is neither possible nor is it necessary. We do, however, need to back those programs that are filling in the voids where other housing options have not or cannot serve. Housing with congregate services is one option that needs your special attention. Stock housing can be and should be used for a major portion of our population. But there comes a point where specially designed housing and outside help are

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necessary to keep the elderly independent for as long as possible. In our case we are finding that the operation costs for congregate services can be born by the residents.

The Section 202 program is well designed to fill housing needs of aging Americans who are between the stages of living in their own homes and needing the special care of nursing homes. The program has the ability to fund the capital expenditures and it is sponsored by those agencies that have as their prime responsibility the service of people. Non-profit agencies operating 202 housing projects have staffs and nationwide consultation services that enable them to do the best work possible. And they have constituencies to draw on for auxiliary support.

Recognizing the potentially limited future of government support to subsidized housing programs like Section 202, may I make the following suggestions for your consideration:

1. That Section 202 be continued or a comparable program established to cover that special area of housing with congregate services that completes a vital chain of options for quality living;
2. That projects be located where they can augment other levels of housing not designed to offer congregate services;
3. That project sponsors be requested to use their staffs and expertise to work with the development of stock housing in their area into such levels of housing as the "share-a-home" option; and
4. That low interest mortgages be made available where it is necessary for the purchase of homes to develop "share-a-homes".

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Through reaffirming the cooperative relationship between the federal government and the private sector, the Section 202 program has created an enviable record in housing. However, the Reagan Administration's proposals for assisted housing clearly would not provide the continuum of services needed by America's elderly. By dismantling the Section 8 program and drastically reducing the funding for Section 202, the Administration is intending for this nation to turn its back on the housing needs of our aging citizens by weakening the successful link with private agencies that provide a variety of workable housing styles for persons throughout all stages of old age.

Because HR 5731 would reauthorize the Section 202 program and provide an acceptable alternative to the Section 8 subsidized housing program, we support this alternative to the harmful proposals outlined by the Administration. More significantly, we applaud the Subcommittee's initiative in seeking to maintain this nation's commitment to housing its low income people, especially the elderly.

Thank you, Mr. Chairman, for the opportunity to present these views.

Mr. VENTO. Thank you, Reverend Franzen. Sorry about the mispronunciation.

Reverend Hopkins.

STATEMENT OF GERALD W. HOPKINS, SOUTHERN PRESBYTERIAN CHURCH, AND CHAIRMAN, FAIRFAX COUNTY HOUSING AUTHORITY

Mr. HOPKINS. I am Gerald W. Hopkins. In my daily life I am vice president and general counsel of Consumers United Insurance Co., but today I speak from a different perspective than that. I speak from two perspectives, both of these in opposition to the administration's budget provisions which will eliminate federally subsidized housing programs.

First I speak as a minister. I am president of the board of directors of the National Capital Union Presbytery. Second, I speak from the position as the chairman of the Fairfax County Redevelopment and Housing Authority.

As a minister who is a member of two Presbyterian denominations—the United Presbyterian Church and the Southern Presbyterian Church—I would take this stand. Our Presbytery of 115 churches in the Washington area has had a long commitment to social justice and to housing in particular. Several individual churches and the Presbytery's own housing development corporation have sponsored a number of housing projects. However, none of these projects could have been built without Federal subsidy.

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The church, even with its commitment and its financial resources is incapable of housing the poor apart from a partnership with the Government and the private sector.

Sponsorship by the church of housing for the low income will cease without some form of assistance. Even though both denominations are theologically and financially committed to social justice and social programs, their resources are limited. Voluntarism and charity from the religious sector will not fill the gap created by the administration's reductions in housing and other social programs.

The Presbyterians and many other denominations will attempt to respond to the level of need created by the administration's neglect, but all have been stretched to the limits prior to the proposed cuts just to meet the needs of those who fell through the cracks of the Federal and other Government programs.

I would also remind you that many of our constituency and many of those who profess the Christian religious faith do not necessarily hold that social justice and accompanying social programs are necessarily a tenet of their faith. Rather, many of our brethren believe that such have no place or are secondary at best in the faith.

Consequently, there is not the religious impetus among a great number of Americans that will result in giving of one's money or time to help solve social problems that are greatly increased by the lack of Federal funds. This is to say that the administration's faith in the private sector to pick up the slack in such social programs as housing the poor is naively held and not likely to occur.

I have spoken from a philosophical perspective as to why the administration's budget is ill-conceived. Now I shall speak from a practical standpoint about the impact such a budget designed to deprogram housing will have in one jurisdiction which might be perceived as having the wherewithal to house its own, namely Fairfax County.

Fairfax County has a housing crisis. High interest rates and construction cost have reduced single-family construction by 54 percent over the last 5 years. Low- and moderate-income rental units are being consumed through condominium conversion, by speculators or by those unable to afford single-family homeownership. The county's overall rental vacancy rate is a mere 2.6-percent. Most of the vacant units are located in expensive high-rise buildings.

The results are that we have 2,000 families on the Housing Authority's waiting list. We have some 24,000 families either overcrowded of overpaying or unhoused within the county. Finally, we have uncounted families actually being displaced from the dwindling supply of older moderately priced rental units as a result of condominium conversion—a number which I would suggest is likely to increase if interest rates do in fact sometime decrease.

Since its creation in 1966, the Fairfax County Redevelopment and Housing Authority has been desperately trying to cope with the housing problem. The last 5 years has brought substantial gains. But now, faced with the loss of one of our largest housing resources through condominium conversion, we are also faced with the loss of all Federal Government programs aimed at construction and adequate rental assistance—Federal programs that were adequately working in Fairfax.

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Let me address the administration's proposed voucher system. This system in the administration's budget presumes an adequate supply of rental apartments, which is not the fact in Fairfax County. I just mentioned the 2.6-percent vacancy rate and 24,000 people underhoused. Thus, the new voucher system, designed to replace the section 8 existing program, will be a disaster in Fairfax County for persons of low and moderate income.

There is no market within which to compete. But the declining inventory of rental apartments and with utility costs still rising, section 8 existing clients in Fairfax County could well go from spending 25 percent of their income for rent and utilities to 50 to 60 percent. This projection is based on the budget proposal to grant $160 per month to eligible clients. That assumes that they can find a unit to rent.

Let me move to the section on aid to public housing programs, new construction and substantial rehabilitation. In Fairfax County these programs have worked. In the past 5 years our authority has participated in construction and/or financing of 16 projects, a total of over 1,200 units. The proposed budget now attempts to eliminate the programs under which these units were built and also render these projects bankrupt.

In the public housing program the authority's income sources are two—rent and operating subsidy. Rental income will be reduced because we are now being told that 95 percent of the tenants must be the lowest income. Further, the budget proposes to reduce the operating subsidy. Consequently, we will be receiving far less income to take care of the same needs with increased costs.

Our authority has only two places to cut—either maintenance and management or utilities. I would state that utilities at this time consumes 50 percent of our present budget and raises the question of how does one cut utilities. The authority will be forced into a planned program of watchful deterioration.

This year's cutbacks, combined with the inequities in performance funding, have left the authority short by an estimated $150,000. This must be made up from local contributions. This shortfall will be made up with money over and above the present county subsidy, which already underwrites the salaries of certain authority personnel, underwrites condominium and homeowners fees in certain projects where we have units, and also underwrites painting and other maintenance costs.

The support of the authority for operating costs and personnel amounts to $917,000 in the county's annual operating budget. Beyond this, the county has supported construction of projects as well. Projects have been made feasible with housing assistance funds provided by the county and amounting $4,100,000 over the past 5 years.

Moreover, recently, faced with the availability of no Federal programs, in order to save 20 percent of the units in a 200-plus unit condominium conversion, county dollars have provided a down payment. County dollars provided short-term financing. County dollars will supply condo fees and the taxes will be abated.

Even with this assistance from the county, the authority will be forced to rent these units for $375 per month. That means that only a small portion of those who have lived in these units before

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conversion will be able to afford to continue living there. It means that very few of the authority's waiting list will be able to afford these rents. The really poor and those earning less than $12,000 per year in our county will be eliminated from eligibility for such units.

This is what happens when Federal programs are eliminated and a locality must go it alone. The poor, the working poor, are still not able to compete in the housing market.

In conclusion, we need housing construction and rehabilitation programs that will meet the needs of the poor, the low income, and even the moderate income. Therefore, I urge you to restore the 202 elderly housing program to its formal level, resurrect the section 8 and public housing programs to a significant percentage of the former annual allocation of 130,000 units, fund the 312 rehabilitation program, continue the GNMA tandem financing program and, most importantly, resist the request to rescind most of the housing moneys contained in the appropriation act approved by you in December of 1981.

Thank you.

[Mr. Hopkins submitted the following material for inclusion in the record: A prepared statement with attachment; an article from the Fairfax Journal of March 22, 1982, entitled "County Faces Apartment Shortage"; 1977-82 figures regarding progress under existing Federal programs of the Fairfax County Development and Housing Authority; a memorandum to the Fairfax County Board of Supervisors, dated March 22, 1982, regarding rental housing rate information; and the annual report of the Fairfax County Redevelopment and Housing Authority (July 1, 1980 to June 30, 1981). Also submitted is a letter sent subsequent to the hearing regarding low-income housing in Fairfax County, Va. The material follows:]

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TESTIMONY TO HOUSE OF REPRESENTATIVES

COMMITTEE ON HOUSING AND BANKING

MARCH 25, 1982

FROM: GERALD W. HOPKINS
10700 BUCKINGHAM ROAD
FAIRFAX, VIRGINIA 22032

I AM GERALD W. HOPKINS. I AM A RESIDENT OF FAIRFAX COUNTY IN THE EIGHTH CONGRESSIONAL DISTRICT OF VIRGINIA. I SPEAK FROM TWO PERSPECTIVES AGAINST THE ADMINISTRATION'S BUDGET PROVISIONS WHICH WOULD ELIMINATE FEDERALLY SUBSIDIZED HOUSING PROGRAMS. FIRST, I AM A MINISTER AND PRESIDENT OF THE BOARD OF DIRECTORS OF THE NATIONAL CAPITAL UNION PRESBYTERY. SECONDLY, I AM CHAIRMAN OF THE FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY.

I SPEAK FIRST AS A MINISTER WHO IS A MEMBER OF TWO PRESBYTERIAN DENOMINATIONS -- THE UNITED PRESBYTERIAN CHURCH AND THE SOUTHERN PRESBYTERIAN CHURCH. OUR PRESBYTERY OF 115 CHURCHES IN THE WASHINGTON AREA HAS HAD A LONG COMMITMENT TO SOCIAL JUSTICE AND TO HOUSING IN PARTICULAR. SEVERAL INDIVIDUAL CHURCHES AND THE PRESBYTERY'S OWN HOUSING DEVELOPMENT CORPORATION HAVE SPONSORED SEVERAL HOUSING PROJECTS. HOWEVER, NONE OF THESE PROJECTS COULD HAVE BEEN BUILT WITHOUT FEDERAL SUBSIDY. THE CHURCH WITH ITS COMMITMENT AND ITS FINANCIAL RESOURCES IS INCAPABLE OF HOUSING THE POOR APART FROM A PARTNERSHIP WITH THE GOVERNMENT AND THE PRIVATE SECTOR.

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SPONSORSHIP BY THE CHURCH OF HOUSING FOR THE LOW INCOME WILL CEASE WITHOUT ASSISTANCE.

EVEN THOUGH BOTH DENOMINATIONS ARE THEOLOGICALLY AND FINANCIALLY COMMITTED TO SOCIAL JUSTICE AND SOCIAL PROGRAMS, THEIR RESOURCES ARE LIMITED. VOLUNTARISM AND RELIGIOUS CHARITY WILL NOT FILL THE GAP CREATED BY THE ADMINISTRATION'S REDUCTIONS. THE PRESBYTERIANS AND MANY OTHER DENOMINATIONS WILL ATTEMPT TO RESPOND, BUT ALL HAVE BEEN STRETCHED TO THE LIMITS PRIOR TO THE PROPOSED CUTS JUST TO MEET THE NEEDS OF THOSE WHO FELL THROUGH THE CRACKS OF FEDERAL PROGRAMS. I WOULD ALSO REMIND YOU THAT MANY OF OUR CONSTITUENCY AND MANY OF THOSE WHO PROFESS THE CHRISTIAN RELIGIOUS FAITH DO NOT BELIEVE THAT SOCIAL JUSTICE AND SOCIAL PROGRAMS ARE A NECESSARY TENET OF THEIR FAITH. CONSEQUENTLY, THERE IS NOT THE IMPETUS THAT RESULTS IN GIVING ONE'S MONEY OR TIME TO HELP SOLVE SOCIAL PROBLEMS. THIS IS TO SAY THAT THE ADMINISTRATION'S FAITH IN THE PRIVATE SECTOR TO PICK UP THE SLACK IN SUCH SOCIAL PROGRAMS AS HOUSING THE POOR IS NAIVELY HELD AND NOT LIKELY TO OCCUR.

I HAVE SPOKEN FROM A PHILOSOPHICAL PERSPECTIVE AS TO WHY THE ADMINISTRATION'S BUDGET IS ILL-CONCEIVED. NOW, I SHALL SPEAK FROM A PRACTICAL STANDPOINT ABOUT THE IMPACT SUCH A BUDGET DESIGNED TO DEPROGRAM HOUSING WILL HAVE ON ONE AREA WHICH MIGHT BE PERCEIVED AS HAVING THE WHEREWITHAL TO HOUSE ITS OWN.

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FAIRFAX COUNTY HAS A HOUSING CRISIS! HIGH INTEREST RATES AND CONSTRUCTION COST HAVE CUT BACK SINGLE-FAMILY CONSTRUCTION BY 54%. THE LOW AND MODERATE INCOME RENTAL UNITS ARE BEING CONSUMED THROUGH CONDOMINIUM CONVERSION BY THOSE UNABLE TO AFFORD A SINGLE-FAMILY HOMEOWNERSHIP. THE COUNTY'S OVERALL RENTAL VACANCY RATE IS 2.6%. MOST OF THE VACANT UNITS ARE LOCATED IN EXPENSIVE HIGH-RISE STRUCTURES.

THE RESULTS ARE:

(1) 2,000 FAMILIES ON THE HOUSING AUTHORITY'S WAITING LIST.
(2) SOME 24,000 FAMILIES EITHER OVERCROWDED OR OVERPAYING OR UNHOUSED WITHIN THE COUNTY.
(3) FAMILIES ACTUALLY BEING DISPLACED FROM THE DWINDLING SUPPLY OF OLDER, MODERATELY PRICED RENTAL UNITS AS A RESULT OF CONDOMINIUM CONVERSION.

SINCE ITS CREATION IN 1966, THE FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY (FCRHA) HAS BEEN DESPERATELY TRYING TO COPE WITH THE HOUSING PROBLEM, AND IN THE LAST FIVE YEARS HAS SEEN SUBSTANTIAL GAINS. BUT, NOW FACED WITH THE LOSS OF ONE OF OUR LARGEST HOUSING RESOURCES THROUGH CONDOMINIUM CONVERSION, WE ARE ALSO FACED WITH THE LOSS OF ALL FEDERAL GOVERNMENT PROGRAMS AIMED AT CONSTRUCTION, AND ADEQUATE RENTAL ASSISTANCE.

RENTAL ASSISTANCE:

THE PROPOSED BUDGET PRESUMES AN ADEQUATE SUPPLY OF RENTAL APARTMENTS, WHICH IS NOT THE FACT IN FAIRFAX COUNTY (SEE ATTACHED REPORT FROM THE FAIRFAX COUNTY OFFICE OF RESEARCH AND STATISTICS). THUS, THE NEW "VOUCHER" SYSTEM DESIGNED TO REPLACE THE SECTION 8 EXISTING PROGRAM WILL BE A DISASTER FOR PERSONS OF LOW AND MODERATE INCOME IN FAIRFAX COUNTY.

WITH A DECLINING INVENTORY OF RENTAL APARTMENTS, AND WITH UTILITY COSTS STILL RISING, THE SECTION 8 EXISTING CLIENTS IN FAIRFAX COUNTY COULD WELL GO FROM SPENDING 25% OF THEIR INCOME FOR RENT AND UTILITIES TO 50% - 60%. THIS IS BASED ON THE BUDGET PROPOSAL TO GRANT $166/MONTH ($2,000/YEAR) TO ELIGIBLE CLIENTS. THAT ASSUMES THAT THEY CAN FIND SHELTER.

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NEW CONSTRUCTION AND SUBSTANTIAL REHABILITATION - SECTION 8 AND PUBLIC HOUSING:

IN FAIRFAX COUNTY THESE PROGRAMS HAVE WORKED! IN THE PAST FIVE YEARS OUR AUTHORITY HAS PARTICIPATED IN THE CONSTRUCTION AND/OR FINANCING OF 16 PROJECTS; A TOTAL OF ~~1,796~~ 1,241 UNITS (SEE ATTACHED SCHEDULE). THE PROPOSED BUDGET NOW ATTEMPTS TO ELIMINATE THE PROGRAMS UNDER WHICH THESE UNITS WERE BUILT, AND ALSO RENDER THESE PROJECTS BANKRUPT.

IN THE PUBLIC HOUSING PROGRAM THE AUTHORITY'S INCOME IS FROM TWO SOURCES - RENT AND OPERATING SUBSIDY.

RENTALS WILL BE REDUCED BECAUSE WE ARE NOW BEING TOLD THAT 95% OF THE TENANTS MUST BE OF THE LOWEST INCOME, AND THE BUDGET PROPOSES TO REDUCE OPERATING SUBSIDY. THAT LEAVES OUR AUTHORITY WITH TWO PLACES TO CUT; EITHER MAINTENANCE AND MANAGEMENT OR UTILITIES. THE LATTER CONSUMES 50% OF OUR PRESENT BUDGET.

THIS YEAR'S CUT-BACKS, COMBINED WITH THE INEQUITIES IN PERFORMANCE FUNDING, HAVE LEFT THE FCRHA SHORT BY AN ESTIMATED $150,000. THIS MUST BE MADE UP FROM LOCAL CONTRIBUTIONS. THE ABOVE SHORTFALL IS OVER AND ABOVE THE PRESENT COUNTY SUBSIDY, WHICH UNDERWRITES THE SALARIES OF CERTAIN FCRHA PERSONNEL, CONDOMINIUM AND HOMEOWNERS' FEES, PAINTING, ETC.

CONSTRUCTION AND SUBSTANTIAL REHABILITATION PROGRAMS THE BUDGET HAS ELIMINATED:

- CUTTING BACK THE ELDERLY HOUSING UNDER THE 202 PROGRAM TO 10,000 UNITS.
- CUTTING FROM 130,000 TO 140,000,ANNUALLY,SECTION 8 AND PUBLIC HOUSING UNITS TO ZERO, EXCEPT FOR A FEW ELDERLY.
- ELIMINATION OF THE 312 REHABILITATION PROGRAM.
- ELIMINATION OF THE GNMA TANDEM FINANCING PROGRAM.

ALL OF THIS IS COUPLED WITH A REQUEST BEFORE YOU TO RESCIND MOST OF THE HOUSING MONIES CONTAINED IN THE APPROPRIATION ACT APPROVED BY YOU IN DECEMBER 1981.

WHAT CAN LOCALITIES DO?

FAIRFAX COUNTY ALREADY SUPPORTS THE AUTHORITY, NOT ONLY FOR OPERATING COSTS AND PERSONNEL BY $917,000 IN ITS ANNUAL OPERATING BUDGET, BUT HAS SUPPORTED CONSTRUCTION. PROJECTS

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HAVE BEEN MADE FEASIBLE WITH HOUSING ASSISTANCE FUNDS AT A LEVEL OF $4,100,000 OVER THE PAST FIVE YEARS.

RECENTLY, TO SAVE 20% OF THE UNITS IN A CONDOMINIUM CONVERSION, COUNTY DOLLARS PROVIDED A DOWNPAYMENT; COUNTY DOLLARS SUPPLIED SHORT-TERM FINANCING; COUNTY DOLLARS WILL SUPPLY CONDOMINIUM FEES, AND TAXES WILL BE ABATED.

EVEN WITH ALL THIS ASSISTANCE FROM THE COUNTY, THE AUTHORITY WILL BE FORCED TO RENT THESE UNITS FOR $365/MONTH. THAT MEANS THAT ONLY A SMALL PORTION OF THOSE IN NEED OF SHELTER WILL BE ABLE TO AFFORD THE RENT. THE REALLY POOR WILL BE TOTALLY CUT OFF.

IN CONCLUSION:

- WE NEED A HOUSING CONSTRUCTION PROGRAM THAT WILL MEET THE NEEDS OF THE POOR.

- WE ARE ONLY ACROSS THE RIVER, AND OUR HOUSING NEEDS AND LACK OF RENTAL HOUSING CANNOT ONLY BE SEEN FROM THE CAPITAL, BUT I AM SURE IS A PROBLEM THAT YOUR STAFF AND GOVERNMENT EMPLOYEES CAN PERSONALLY ATTEST TO.

THANK YOU.

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FAIRFAX JOURNAL MONDAY, MARCH 22, 1982

County Faces Apartment Shortage

By ANDREW R. FOSTER
Journal Staff Writer

Fewer apartments are available in Fairfax County now than at any time in the past decade.

Figures compiled by the county's office of research and statistics reveal that of the 42,653 apartments in Fairfax in 1981, only 1,119 on the average were empty and available for new tenants. That's a vacancy rate, housing officials say, of 2.6 percent, the lowest the county has hit in 10 years.

The previous low was 3.5 percent in 1976.

The dearth of apartments exists, according to Timothy W. Jones, the director of the county's research office, because not enough new units are being built to cover the number being converted to condominiums.

Jones said that since 1979, the county has lost 1,982 apartments to conversion that have not been replaced by new construction.

Concerned by the depletion of apartments in the county, the Board of Supervisors plans to discuss at today's meeting steps that can be taken to increase the number of rental units here.

Annandale District Supervisor Audrey Moore is pessimistic about immediate solutions.

"There's no solution to the problem with our present programs. It's just going to end up with an awful lot of people moving out of the county," Moore said.

"It's probably going to get even worse when interest rates come down. That's when all hell's going to break loose," she added.

If interest rates drop, more condominium conversions will likely result — further depleting the county's rental stock, housing officials predict.

Some supervisors disagree that condominium conversions have been the major cause of drying up the rental market.

Dranesville District Supervisor Nancy Falck said more apartments are available than the statistics indicate, because many condo owners rent their units out rather than live in them.

Another factor in the tight rental market, Jones said, is that fewer prospective home buyers are leaving their apartments because the cost of buying a home has increased so dramatically. Monthly mortgage payments have jumped 90.2 percent in the past five years, from $666 to $1,267.

The average monthly apartment rent in the county in 1981, according to the research office's study, was $367. In 1980, it was $334.

Average rents last year ranged from a high of $451 a month in the Pohick area to a low of $324 a month in the Rose Hill area.

Condo conversions strike many people, especially the elderly on fixed incomes, with disasterous results.

Moore told of one case she knew of to illustrate the point.

"She's an old friend and a teacher and called me the other day and told me she was suddenly slipped a note under her door which informed her that her apartment was going condo and she could buy if she wished," Moore said.

"But she cannot afford to do that and doesn't know where she's going to live — especially for her current rent of $370 a month."

Mason District Supervisor Thomas M. Davis III, who requested the housing study, said the only solution is "a cooperative effort by

See APARTMENTS, Page A6

From Page A1

all sections of the community to preserve rental apartments.

"We can get the housing authority to buy a few places for elderly and disabled persons but their money is limited," he said. "The key is to do similar things like we're undertaking in the Williston area — get the whole community involved in a conservation project."

In Williston, developers will be allowed to obtain low-interest, government-backed loans to rehabilitate their properties and keep rents low.

Another possible solution, according to Moore, is Operation Match — a program now used in Alexandria, Falls Church and some portions of the county near Falls Church.

Under the program, persons with rooms available in their homes are matched with those looking for a place to rent.

Moore has asked the county staff to investigate the possibility of expanding the program to cover other areas of the county experiencing condo conversions.

"This program would especially help all those older persons who now have available rooms and who could use the extra income as well as those looking desperately for a place to live in Fairfax but not able to buy," she said.

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Fairfax County Redevelopment and Housing Authority

1977 - 1982

RE: Progress Under Existing Federal Programs

Public Housing Construction

Atrium	37
The Park	24
Robinson Square	46
Heritage Woods	31
Belle View	47
Greenwood	153*
Sheffield	8
Total	346 units

-Existing Section 8 - 736

Section 8 New Construction

Island Walk	102*
Winter Hill	80
Hunting Creek	37
Fisher Hall	12
Crevenna Oaks	50
Summit Oaks	50
Yorkville	236*
Strawbridge	128
Briarcliff	30*
Total	~~1,450~~ 725 units

Moderate Income Direct Sales (MIDS)

Burke Manor	10
Newington Forest	92
Townes of Vienna	12
Heritage Woods S.	3
Sheffield	3
Brosar Park	37
Mt. Pleasant	13
Total	170 units

*cooperatives

Rehabilitation

No. of Loans		
39	312 Loans	$ 686,000
191	CD Loans and Grants	2,057,000
86	Tax Exempt Bank Loans	1,057,000
38	County Rehabilitation	725,000
354	Total	$4,525,000

Over $20,000,000 in Community Development Block Grant activity. All funds we expended only on projects for low and moderate income families.

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Memo to the Board March 22, 1982

I-7. Rental Housing Rate Information

At the February 1, 1982 Board of Supervisors' meeting, Supervisor Davis discussed an article in the January 30, 1982 edition of the Washington Post. This article stated that the metropolitan area's rental housing vacancy rate was approximately 5 percent. The enclosed document discusses the article's relevance to Fairfax County with information from the 1981 Rental Housing Survey, and presents some preliminary results of the 1982 Rental Housing Survey. Based on this information, a 5 percent housing vacancy rate is not applicable to Fairfax County.

According to the preliminary results of the 1982 Rental Housing Survey:

- The County's overall vacancy rate is under 3.0 percent.
- There has been an increase in the vacancy rates for high-rise projects that have higher-priced units. Most of the increase in this vacancy rate is attributed to increases in vacant units in those high-rises that have always had vacancy rates higher than the County average.
- The vacancy rates for garden apartment projects with relatively high-priced units have always been lower than the County average. Preliminary results from the 1982 Rental Housing Survey indicate that these projects still have lower vacancy rates than the County average.
- The County's relatively low vacancy rate is the direct result of recent declines in the County's rental housing inventory and the reduction of homeownership opportunities.

ENCLOSED DOCUMENTS: Memorandum to the County Executive from the Director, Office of Research and Statistics, dated March 16, 1982.

STAFF: J. Hamilton Lambert, County Executive; Timothy W. Jones, Director, Office of Research and Statistics

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RENTAL HOUSING DATA: FAIRFAX COUNTY

- Listing of Rental Housing Projects by Project Name
- Average Rents for Units in Rental Housing Projects by Supervisor Districts

January 1981

The attached computer report provides listings of rental housing projects and average rents for units in rental housing projects located in Fairfax County as of January 1981. Included in the listings are the following data elements:

- project name
- type of units
- total number of units
- number of units/unit size
- age of project
- subcensus tract
- planning district
- supervisor district
- map reference number

- project name
- type of units
- total number of units
- average rent/unit size
- age of project
- utilities included in rent
- amenities included in rent

For additional information please contact the Management Services Branch of the Fairfax County Office of Research and Statistics at 691-3301.

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UDSRN501 LISTING OF RENTAL HOUSING PROJECTS BY PROJECT NAME FAIRFAX COUNTY, VIRGINIA JANUARY 1981 PAGE 4

PROJECT NAME	TYPE OF UNITS	TOTAL UNITS	EFF	1BDR	1BDR /DEN	2BDR	2BDR /DEN	3BDR	3BDR /DEN	4BDR	4BDR /DEN	AGE YRS	SUB CENSUS	D	SD	MAP REFERENCE NO
ALMERIA APTS	G	218		85	27	71	35					2	66402	N	01	0033 01 0038
ANNANDALE T	G	223		76		147						22	52201	A	03	0711 01 00008
ARROWHEAD A	G	184		76		90		18				15	71301	E	07	0303 01 0104
ARROWHEAD A	T	159		62		70		27				15	71301	E	07	0304 01 0104
BAILEY HOUSE	M	49	28	5		16						15	51803	B	05	0018 01 0070
BAKERSFIELD	G	42	4	19		9						15	21601	I	04	1012 01 00108
BAKERSFIELD	T	72		20		32		20				15	21601	I	04	1012 01 00108
BARCROFT PL	G	196	8	72	20	60	20	24				15	51606	B	05	0018 01 0106
BARCROFT VW	G	370		86		237	20	27				18	51701	B	05	0014 01 0023
BEACON HILL	G	727	33	192	11	466	4	22				11	21401	I	04	0022 01 00104
BEAUREGARD M	M	173		62		62	2	32	15			12	52504	F	05	0724 01 0011
BEDFORD VIL	G	402		241	26	115		84				14	40202	D	07	0002 01 00012
BEDFORD VIL	T	276				146						14	40202	D	07	0002 01 00012
BELFORD MANR	G	203		71		99		33		30		10	21501	I	04	1012 04 00024
BELLE HAVEN	G	43	36	7								44	15403	I	06	1001 07 0022
BELLE HAVN T	M	332	21	180		93		46				12	20801	I	04	0033 01 0030
BELLE HAVN T	H	223	38	147		38						12	20801	I	04	0033 01 0030
BELVOIR GARD	G	151	24	84		43						18	22005	G	04	1001 01 0002
BELVOIR PLAZ	G	45		24		21						16	16101	I	06	1005 02 0006
BERKELEY SQ	G	300		132		168						15	61102	N	01	0303 01 0049
BREN MAR	G	134		66		65		3				22	52601	F	05	0011 04 00076
BRIGHTON SQ	G	504		128	87	149	105	32	33			15	52504	F	05	0724 01 0011
BUCKMAN ROAD	G	204		46		100		46				8	21601	I	04	1012 01 0010
CARLYN HILL	G	74	4	18		37		18				19	51803	B	05	0031 01 0003
CARTER LAKE	G	269		91	21	147						2	00703	N	01	0101 01 0000
CAVALIER CLU	M	220	21	126		63		10				17	51402	B	05	0013 01 0043
CEDAR RIDGE	G	197				91		53		53		22	00602	N	01	0101 04 0013
CHANTILLY PK	G	180		36		84		54		36		9	50901	N	12	0101 02 00108

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PROJECT NAME	TYPE OF UNITS	TOTAL UNITS	EFF	1BDR	1BDR /DEN	2BDR	2BDR /DEN	3BDR	3BDR /DEN	4BDR	4BDR /DEN	AGE YRS	SUB CENSUS	P D	SD	MAP REFERENCE NO
CHARTER OAKS	G	261		81		180						11	00702	N	01	0172 22 0001A
CHATEAUX	G	108		36		72						16	51302	B	05	0813 01 0026
CHELSEA SQ	G	166		66	16	62	17	11	4			17	30401	L	08	0802 01 0020A
CHERRY ARMS	G	164		60		78	12	11	3			17	18401	I	06	0933 01 0001
CHESTNUT GRO	G	226		24	32	68	26	50	6	8		10	80603	N	01	0174 08 0001
CHURCHILL AP	M	150	36	71		37	6					15	50102	E	07	0501 01 0036
CIRCLE TOWER	H	553	35	180	12	186	48	120				8	61701	N	07	0404 01 0003
CIRCLE TOWER	T	52								52		8	61701	N	07	0404 01 0003
COLTS NECK A	G	362		132	41	169						7	81301	N	01	0201 09 0001
COLUMBIA VIE	G	53		30		21		2				18	51503	B	05	0612 01 0068
COMMONS OF M	G	549		232		302		15				11	71204	H	02	0303 28 0006
COMMONS OF M	T	28						22		6		11	71204	H	02	0303 28 0006
CORALAIN GAR	G	106	17	43		46						19	50602	E	07	0503 01 0003
CRESCENT AP	G	180		38		118		22	2			15	80702	N	01	0172 16 0001A
CREVENH OAK	T	50				30		20				2	31101	J	08	0771 01 0005A
CULMORE APTS	G	411	18	131		262						32	51603	B	05	0612 13 0001
CULMORE APTS	T	36				36						32	51603	B	05	0612 13 0001
DEVONSHIRE	G	81		18	24	18		21				14	71301	E	07	0302 01 0050
DOLLEY MAD	G	580		144	102	326		9				15	71204	H	02	0302 01 0072
DOLLEY MAD V	G	145	2	55		138						17	71204	H	02	0302 01 0047B
DOLLEY MAD V	T	16						16				17	71204	H	02	0302 01 0047B
DONNA LEE AP	G	295		54		241						31	51604	B	05	0612 14 0014
E MEADOW	G	150		55		80		15				10	90401	C	08	0402 01 0037
EDSALL GARDE	G	175		36		139						20	52602	F	05	0811 06 0003
ELDEN TERRAC	G	182		18		51		113				10	80901	N	12	0161 02 0011B
EVERGREEN HS	M	244	1	242		1						4	52001	A	05	0604 01 0021
FAIRFAX CIR	G	330		123	11	133	12	38	3	10		8	61402	D	07	0403 01 0020
FAIRFAX PLAZ	T	9				2		7				10	40102	D	07	0504 25 0001

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PROJECT NAME	TYPE OF UNITS	TOTAL UNITS	EFF	1BDR	1BDR /DEN	2BDR	2BDR /DEN	3BDR	3BDR /DEN	4BDR	4BDR /DEN	AGE YRS	SUB CENSUS	P D	SD	MAP REFERENCE NO
FAIRFAX TOWE	H	415		220		146	1	48				3	71301	E	07	0403 01 0004
FAIRFAX VIL	G	174		65		94		15				8	61402	D	07	0474 01 0019
FAIRHAVEN	G	113	1	52		60						29	20602	I	04	0833 03 B
FAIRMONT GAR	G	387		80		265	4	38				18	50702	A	05	0711 03 0001
FAIRWAY	G	347		97		159		91				12	60702	M	01	0172 18 0001
FELLOWSHIP H	M	99	32	67								8	80702	M	01	0172 01 0003
FELLOWSHIP H	H	138	30	108								8	80702	M	01	0172 01 0003
FOREST HILLS	G	174		56	24	63	15	8	8			15	71301	E	07	0401 01 0044
FRENCH BLDGS	G	23		12		11						40	20401	I	06	0831 15 0515
GLEN	G	152	64	67		20						3	71402	E	07	0501 01 0042A
GOLDEN GATE	G	185		89		86		9				19	61604	B	06	0623 01 0012
GRANDVIEW AP	G	266	2	92		148		24				18	51504	B	05	0621 01 0009
GREEN HILLS	T	100						68		32		1	31702	L	06	0991 01 0002C
GREENWOOD AP	G	153		74		79						31	51501	B	05	0513 18 J
GROSVENOR RI	M	1,225	224	743		258						12	20401	I	06	0831 01 0007
GROVETON GAR	G	340		89	36	146	67	12				15	21402	I	04	0924 01 0013
HARTLAND MAN	G	59		33		26						16	61604	M	07	0492 01 0037
HERDON VIL	G	76		24		52						17	80901	M	12	0162 02 0123
HERDON VIL	T	15						16				17	80901	M	12	0162 02 0123
HERITAGE LTD	G	65		30		35						16	20901	K	04	0823 01 0041A
HERNDON COUR	G	34		34								17	80901	M	12	0162 14 0001A
HERNDON COUR	T	28				28						17	80901	M	12	0162 14 0001A
HILLWOOD MAN	G	7		72		99						31	51603	B	05	0612 11 0001
HOLLY COURT	G	101		51		50						8	21402	I	04	0924 01 0021
HOLLY COURT	T	20				12		8				8	21402	I	04	0924 01 0021
HOLLYWOOD MA	G	91		12	6	36		34		3		12	71401	E	07	0501 01 0017
HOLYWD GDN A	G	180		41	1	87	45	12				16	71401	E	07	0501 01 0020
HUNTERS WOOD	M	224		224								3	81401	M	01	0261 07 0003B

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/DSRN501

LISTING OF RENTAL HOUSING PROJECTS BY PROJECT NAME
FA RFAX COUNTY, VIRGINIA JANUARY 1981

PROJECT NAME	TYPE OF UNITS	TOTAL UNITS	EFF	1BDR	1BDR /DEN	2BDR	2BDR /DEN	3BDR	3BDR /DEN	4BDR	4BDR /DEN.	AGE YRS	SUR CENSUS	P D	SD	MAP REFERENCE NO	
HUNTINGTON A	G	66		30		36		1				40	20401	I	06	0831 16	0018
IDYLWOOD VIL	G	312	26	99	33	109	33	12				15	71301	E	07	0403 01	0003A
IDYLWOOD WES	G	395		95	48	192	24	36				9	71301	E	07	0403 01	0005
INTERNATIONA	G	90		39		46		5				17	80901	M	12	0162 02	0121
JANNA LEE A	G	318		55		155		108				6	21501	I	04	1012 01	0017
JEFFERSON GA	G	66		32		34						29	20603		04	0833 0207	A
JEFFERSON VI	T	509				255		254				33	50101	E	07	0503 12	0003
JOHNSON APTS	G	8				8						31	50303	E	07	0502 01	0040
KALMIA LEE	G	63		34		29						18	50103	E	07	0501 01	0048
K NGS GARDEN	G	442		100	38	72	06	18	8			4	20603		04	0833 01	0007A
KINGS MANOR	T	15						4		11		11	70503	M	02	0302 16	0176
KNOLLS NEWGA	G	142		40		102						10	90604	C	08	0543 01	0002
LAFAYETTE HS	M	202	20	80	42	48		12				17	51601	B	05	0611 01	0009A
LAKE ANNE VI	G	46	1	19		26						16	80703	M	01	0172 07	0006B
LAKE BARCROF	M	198	22	78	40	47		11				18	51601	B	05	0611 01	0009
LAKEV EW TH	T	47				44		89		14		10	81001	M	02	0161 08	D
LAUREL GLADE	G	200		36		94		70				7	81201	M	01	0261 10	0010
LEE VALLEY	G	242		26	6	145	60	8				13	31601	L	08	0901 01	0044
MAGARITY WOO	G	147	5	48	2	57		36				14	71204	M	02	0302 01	0061
MARGATE MANO	G	100	6	75	10	71		18				15	40101	D	07	0604 01	0052
MAYFAIR HOUS	G	208		75		133						16	50303	E	07	0504 01	0041
MERR E LEE	G	17		5		4	2	5		1		12	61604	N	07	0492 01	0041
MERRIFIELD V	G	706		216	68	282	66	84				13	61604	N	07	0492 01	0040
MONTICELLO G	G	733	1	358		374						13	50602	E	07	0503 01	0005C
MT VERNON A	G	183		72		88		21				15	21602	I	04	1014 01	0009
MT VERNON GA	G	32		5		27						16	21601	I	04	0824 01	0060A

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JOSRN501 LISTING OF RENTAL HOUSING PROJECTS BY PROJECT NAME PAGE
FAIRFAX COUNTY, VIRGINIA JANUARY 1981

PROJECT NAME	TYPE OF UNITS	TOTAL UNITS	EFF	1BDR	1BDR /DEN	2BDR	2BDR /DEN	3BDR	3BDR /DEN	4BDR	4BDR /DEN	AGE YRS	SUB CENSUS	P D	SD	MAP REFERENCE NO
MT VERNON SQ	G	1,387		616		561		217				6	15401	I	05	0033 01 00062
MT ZEPHER	G	23	7	10		6		1				20	16002	I	04	1016 000 0003
HUNSON HILL	M	279	36	113	37	83		11				10	51001	B	06	0011 01 0011
NORTHGATE AP	G	440		189		221		90				10	00702	N	01	0172 23 0007
OAKTON PARK	G	418		72	02	186	07	48				9	51002	B	07	0076 01 0026
OAKVIEW GARD	G	324		37	12	226	44	6				13	01701	B	08	0414 01 0001
ORLEANS VILL	G	499		246	26	227						15	51001	F	06	0701 01 0004
ORLEANS VILL	T	352				221		131				15	51001	F	06	0721 01 0044
ORRINGTON CT	G	25	1	7		17						34	50203	E	07	0002 02 A
PARK AVENUE	G	43				43						10	00001	N	12	0104 02 00140
PARK TERRACE	G	153		36	9	71	30	7				19	49001	N	13	0201 02 0140
PARKWOOD APT	G	220		46		172						33	51003	B	06	0412 16 0021
PARLIMENT MR	M	252	28	137		90						10	50202	A	06	0711 01 0077
PARLIMENT VI	G	498		112	30	181	77	98				11	00702	A	06	0711 01 0077
PATRIOT VILL	G	1,029		400	12	512	63	42				6	02301	A	03	0702 01 0023
PATRIOT VILL	T	36				14		22				6	02301	A	03	0702 01 0023
PEACHTREE	G	228		58	20	76	21	45				8	71104	H	02	0401 01 0034
PEACHTREE	M	112	2	62		48						8	71104	H	02	0401 01 0034
PENN DAV GAR	G	72		30		40		2				15	15102	I	04	0031 01 0020
PENNBURY VI	G	124		20	36	68						12	30001	L	08	0701 01 0011
PINE SPRING	G	62	6	49		7						28	00101	E	07	0003 19 A
PINE SPRING	T	38				14		24				28	00101	E	07	0003 19 A
PINE SPRING	G	403		138	42	201		12				16	00101	E	07	0005 01 00020
PINESPRING V	G	186		53		121		12				18	00101	E	07	0004 01 00045
PINEWOOD PL	G	198	11	42	12	94	21	18				10	00103	G	07	0005 01 0020
PRINCE FAIRF	G	264		110	46	96		12				17	20001	K	04	0003 01 00002
PROVIDENCE M	G	196	10	74		98		14				9	01701	N	07	0005 01 00126
RAVENSWOOD T	M	309	52	159		98						20	51001	B	06	0613 01 0020

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LISTING OF RENTAL HOUSING PROJECTS BY PROJECT NAME
FAIRFAX COUNTY, VIRGINIA JANUARY 1981

PROJECT NAME	TYPE OF UNITS	TOTAL UNITS	EFF	1BDR	1BDR /DEN	2BDR	2BDR /DEN	3BDR	3BDR /DEN	4BDR	4BDR /DEN	AGE YRS	SUR CENSUS	P D	SD	MAP REFERENCE NO
RAVENSWORTH	H	219	34		110		75					8	52102	A	03	0711 09 0004B
RIVER TOWERS	H	512	67	279		8		48				7	5202		06	0932 01 0007A
ROBINWOOD GA	G	57	2	24		27		4				17	51503	B	05	0612 01 0059
ROLLING HILL	G	157	7	66		78		6				11	21602	I	04	1012 01 0008
ROSEHILL APT	G	181		96		85						19	20901	K	04	0823 01 0040A
RUSSELL APTS	G	9		7		2						17	21801	I	04	1013 01 0040
SEVEN CORNER	G	283		141		142						31	51402	B	05	0513 18 D
SKYLINE TOWE	H	940	156	364	52	210	106	52				9	51702	B	05	0623 01 0032
SKYVIEW APTS	G	118		33	8	44		28		5		15	21801	I	04	1013 01 0038
SOUTHERN MAN	G	711	8	283	110	261	48	4				3	21402	I	04	0924 01 0020
SPRING GAR	G	206		18	20	141		27				14	15501	I	06	1012 01 0045
SPRINGFIELD	G	220		80		128		12				22	30603	L	08	0803 01 0007
SPRINGFIELDS	G	411		184	10	160	27	30				14	52404	A	03	0802 01 00198
SPRINGVALE G	G	98		0	25	55		8				17	31602	L	08	0901 01 0054A
STONEGATE	G	240		40		88		80		32		9	81201	M	01	0261 08 0002
STONELEIGH	T	21						21				11	70802	H	02	0304 38 A2
STRAWBRIDGE	G	42		14		28						2	52504	F	05	0723 01 0040
STRAWBRIDGE	T	86		6		24		36		20		2	52504	F	05	0723 01 0040
STUART WOODS	G	458		229	229							7	60801	M	12	0171 02 0005
SULGRAVE SQ	G	168		53	10	80	3	12				5	16001	I	06	1014 06 0016A
SUNNLT OAKS	T	34				30		4				1	31102	J	08	0772 01 0044A
SUNSET PARK	G	90		17		61		12				20	51702	B	05	0614 17 B
SYCAMORES RS	G	185		62		105		18				2	60702	M	01	0172 01 00118
TER TH ANNAN	T	82		9		23		50				8	52104	A	03	0712 23 SALE
TER TH GUNST	T	52				50		2				7	22104	G	04	1074 11 SALE
TER TH WOOD	T	27				27						8	16002	I	06	1013 23 SALE

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PROJECT NAME	TYPE OF UNITS	TOTAL UNITS	EFF	1BDR	1BDR /DEN	2BDR	2BDR /DEN	3BDR	3BDR /DEN	4BDR	4BDR /DEN	AGE YRS	SUB CENSUS	P D	SD	MAP REFERENCE NO	
THOMAS EDISO	G	44	2	20	12	10						17	20901	K	04	0814	11 0008
TYSONS TOWER	H	274	104	152		18						4	60402	N	01	0293	01 0016
VANTAGE HILL	G	151		40		79		32				16	60602	N	01	0172	13 0022
VIENNA PARK	G	299		74		185		40				17	60701	N	13	0491	02 0002C
VIENNA VILLA	G	32				16		16				14	60601	N	13	0382	02 0003A
VILLAGE APTS	G	32		28		4						21	22005	G	04	091	01 0031
VIRGINIA VIL	G	344		77	68	137	29	32	1			16	52504	F	05	0723	01 0054
VISTAS OF VI	G	48		12		30		6				3	61302	D	07	0474	16 12 0402
WASHINGTON S	G	219	1	87		122		9				16	16002	I	06	1013	09 02 0001A
WEDGEWOOD FA	G	123		10	4	80	80	6	3			13	82201	A	03	0711	01 0072
WEDGEWOOD MA	G	125		29	8	56	20	10	2			18	52201	A	03	0711	01 0072A
WEDGEWOOD WE	G	408		86	28	172	103	12	7			13	52201	A	03	0702	01 0008
WEDGEWOOD WE	T	15				4		11				13	52201	A	03	0702	01 0008
WEST SPRINGF	G	242		52	22	116	22	30				3	30901	J	08	0793	05 0007
WESTBRIAR A	G	106		24	12	30	17	23				16	51701	B	05	0614	01 0117
WEXFORD MANO	G	74		24		24		24		2		11	71401	E	07	0501	01 0023
WILLSTON APA	G	247		126		121						30	51501	B	05	0513	18 F
WILLSTON GAR	G	303		150		153						31	51402	B	05	0513	18 C
WILSTON NORT	G	244		120		124						31	51401	B	05	0513	18 A
WILSTON SOUT	G	186		86		100						30	51501	B	05	0513	18 H
WINTERTHUR A	G	300		21	35	113	82	36	13			6	81301	H	01	0261	09 0002
WOODBURN VIL	G	604		89	127	281		85	22			1	40202	D	07	0591	01 0023
WOODLAKE TOW	H	620	58	279	59	210		14				10	51502	B	05	0814	01 0012A
WOODLAWN GAR	G	249		60		156		24				17	21701	I	04	1013	01 0008
WOODLAWN MAN	G	180		50	10	60	12	40	8			7	21701	I	04	1013	01 0008
WOODLEY ARMS	G	32		14		18						18	20501		06	0831	20 0001B

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USBAS01 LISTING OF RENTAL HOUSING PROJECTS BY PROJECT NAME PAGE 8
FAIRFAX COUNTY, VIRGINIA JANUARY 1981

PROJECT NAME	TYPE OF UNITS	TOTAL UNITS	EFF	1BDR	1BDR /DEN	2BDR	2BDR /DEN	3BDR	3BDR /DEN	4BDR	4BDR /DEN	AGE YRS	SUB CENSUS	P O	SD	MAP REFERENCE NO
WOODS OF FAI	G	311		132		142		37				2	22101	6	04	1083 01 0006
FINAL TOTAL		42,653	1,351	14,694	2,133	18,386	1,656	3,977	138	318						

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Utilities Included in Rent

Code Letter	Utility
A	Heating
B	Air Conditioning
C	Hot Water
D	Other Electricity

Amenities Available

Code Letter	Amenity
A	Air Conditioning
B	Pool
C	Secretarial Service
D	Washer/Dryer in Unit
E	Tot Lot
F	Security Guard
G	Wall to Wall Carpet
H	Pets
J	Adult Only Buildings

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JOSA8838 AVERAGE RENTS FOR UNITS IN RENTAL HOUSING PROJECTS IN PROJECT [illegible]
FAIRFAX COUNTY, VIRGINIA JANUARY 1981

PROJECT NAME	TYPE OF UNITS	TOTAL UNITS	EFF	1BDR	1BDR /DEN	2BDR	2BDR /DEN	3BDR	3BDR /DEN	ALL 4BDR	AGE YRS	UTILITIES INC	UTILITIES IN RENT	AMENITIES	SALE UNITS
ALMERIA APTS	GARDEN	218		393	424	464	488				2			A B C D E F	
ANNANDALE T	GARDEN	223		318		340					22	A	C	A	D E
ARROWHEAD A	GARDEN	184		330		364		403			15	A	B C D	A	D E
ARROWHEAD A	TOWNHOUSE	159		340		429		478			15	A	B C D	A	D E
BAILEY HOUSE	MID-R SE	49	300	350		388					15	A	B C D	A	J
BAKERSFIELD	GARDEN	32	249	269		305					15	A	C	A	F
BAKERSFIELD	TOWNHOUSE	72		259		305		359			15	A	C	A	F
BARCROFT PL	GARDEN	196	300	350	378	396	420	448			15	A	C	A	D J
BARCROFT VW	GARDEN	370		378		408	430	480			18	A	B C D	A	D J
BEACON HILL	GARDEN	727	300	343	378	425	478	480			11	A	B C D		D J
BEAUREGARD M	MID-RISE	173		372		402	440	467	472		12	A	B C D	A	D G H J
BEDFORD VIL	GARDEN	482		379	399	433					14	A	B C D	A	D E
BEDFORD VIL	TOWNHOUSE	270				483		866			14	A	B C D	A	D E
BELFORD MANR	GARDEN	203		273		298		319		389	19	A	B C D	A	
BELLE HAVEN	GARDEN	43	220	280							44	A	C D		
BELLE HAVN T	MID-RISE	344	303	346		392		486			12	A	C	A	D E F J
BELLE HAVN T	HI-RISE	223	335	385		455					12	A	C	A	D E F J
BELVOIR GARD	GARDEN	151	260	295		335					18			A	
BELVOIR PLAZ	GARDEN	45		308		333					16	A	C	A	C
BERKELEY SQ	GARDEN	300		325		368					15	A	B C D	A	D H
BREN MAR	GARDEN	134		280		310		325			22				D F
BRIGHTON SQ	GARDEN	504		345	368	388	407	430	483		15	A	B C D	A	D E
BUCKMAN ROAD	GARDEN	204		227		288		287			8	A	B C D	A	E
CARLYN HILL	GARDEN	74	230	269		314		362			19		C	A	F
CARTER LAKE	GARDEN	259		340	350	365					2	A	C	A	B F H
CAVALIER CLU	HI-RISE	220	318	363		490		310			17	A	B C D	A	D E H
CEDAR RIDGE	GARDEN	197				328		370		405	22	A	B C D	A	D E F H
CHANTILLY PN	GARDEN	188		218		262		302		342	9	A	C	A	C E J
CHARTER OAKS	GARDEN	261		365		398					11	A	B C D	A	B D E

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DSR0635 AVERAGE RENTS FOR UNITS IN RENTAL HOUSING PROJECTS IN PROJECT NAME ORDER
FAIRFAX COUNTY, VIRGINIA JANUARY 1981

PROJECT NAME	TYPE OF UNITS	TOTAL UNITS	EFF	1BDR	1BDR /DEN	2BDR	2BDR /DEN	3BDR	3BDR /DEN	ALL 4BDR+	ALL UTILITIES YRS INC IN RENT	AMENITIES	BASE UNITS
CHATEAUX	GARDEN	108		470		583				16	A B C D	A C D E F	
CHELSEA SQ	GARDEN	166		385	365	396	415	480	466	17	A B C D	A C D E F	
CHERRY ARMS	GARDEN	164		300		340	385	390	410	17	A B C D	A C D E F	
CHESTNUT GRO	GARDEN	226		333	348	373	388	438	483	843 10	A B C	A B C D E F	J
CHURCHILL AP	MID-RISE	150	286	349		426	467			15	A B C D	A D	
CIRCLE TOWER	MI-RISE	853	312	343	386	390	426	420		8	A B C D	A D E	N
CIRCLE TOWER	TOWNHOUSE	52								100 8	A B C D	A D E	N
COLTS NECK A	GARDEN	362		375	388	406				7	A B C D	A C D E	
COLUMBIA VIE	GARDEN	53		282		290		330		10		A	
CONDONS OF N	GARDEN	549		365		420		440		11	A B C D	A D E	N J
CONDONS OF N	TOWNHOUSE	28						538		840 11	A B C D	A D E	N J
CORALAIN BAR	GARDEN	106	260	300		330				10	A C	A	D
CRESCENT AP	GARDEN	180		300		410	466	466		10	A B C D	A C D E F	
CREVENN OAK	TOWNHOUSE	50				471		523		2		A B C	
CULMORE APTS	GARDEN	411	255	275		300				32	A C D		
CULMORE APTS	TOWNHOUSE	36				370				32	A C D		
DEVONSHIRE	GARDEN	81		360	375	420		480		14	A B C D	A D	
DOLLEY MAD	GARDEN	580		390	418	423		494		16	A B C D	A D E F	
DOLLEY MAD V	GARDEN	195	280	305		325		480		17	A B C	A D	
DOLLEY MAD V	TOWNHOUSE	16								17	A B C	A D	
DONNA LEE AP	GARDEN	295		266		305				31	A B C	A D	
E MEADOW	GARDEN	150		330		368		423		18	A C D	A D E F G H J	
EDSALL GARDE	GARDEN	178		273		290				20	A B C D	A C D E F	N
ELDEN TERRAC	GARDEN	182		253		275		296		15	A B C D	F	
EVERGREEN MS	MID-RISE	244	318	407		483				4	A B C D	A C	J
FAIRFAX CIR	GARDEN	330		303	318	333	388	388	416	403 8	A C	A D D E F	
FAIRFAX PLAZ	TOWNHOUSE	9				440		466		10		A D C D E F	
FAIRFAX TOWE	MI-RISE	418		375		445	488	504		3		A C D E	N
FAIRFAX VIL	GARDEN	174		373		400		473		8	A B C D	A	D

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UDSR0638 AVERAGE RENTS FOR UNITS IN RENTAL HOUSING PROJECTS IN PROJECT NAME ORDER 9/09/81
FAIRFAX COUNTY, VIRGINIA JANUARY 1981

PROJECT NAME	TYPE OF UNITS	TOTAL UNITS	EFF	1BDR	1BDR /DEN	2BDR	2BDR /DEN	3BDR	3BDR /DEN	ALL 4BDR	AGE YRS	UTILITIES INC	UTILITIES IN RENT	AMENITIES	SALE UNITS
FAIRHAVEN	GARDEN	113	170	180		208					29	A C D		E	
FA RMONT GAR	GARDEN	387		388		398	418	428			18	A B C D	A	D E	J
FAIRWAY	GARDEN	347		400		430		468			12	A B C D	A	C D E F	H J
FELLOWSHIP H	MID-RISE	99	197	241							8	A B C D	A C		H J
FELLOWSHIP H	HI-RISE	136	176	214							8	A B C D	A C		H J
FOREST HILLS	GARDEN	174		370	386	400	430	485	888		16	A B C D	A	D E F	H
FRENCH BLDGS	GARDEN	23		236		258					40	A C	A B		
GLEN	GARDEN	152	240	299	328	338					3	C	A	C D	H
GOLDEN GATE	GARDEN	184		359		409		459			19	A B C D	A	D E F	
GRANDVIEW AP	GARDEN	266	308	320		350		386			18	A C		D E	
GREEN HILLS	TOWNHOUSE	100						520		600	1		A B C	E	
GREENWOOD AP	GARDEN	183		278		313					31	A C D	A		
GROSVENOR BL	HI-RISE	1,225	280	318		369					12	C	A	D	H J
GROVETON GAR	GARDEN	348		288	306	320	348	388			18	A B C	A	D E	H
HARTLAND MAN	GARDEN	99		310		338					16	A B C D	A		
HERDON VIL	GARDEN	76		308		348					17	A B C D	A	D F	
HERDON VIL	TOWNHOUSE	16						428			17	A B C D	A	D F	
HERITAGE LTD	GARDEN	68		288		338					16	A C			
HERNDON COUR	GARDEN	34		288							17	A B C	A	F	
HERNDON COUR	TOWNHOUSE	28				368					17	A B C	A	F	
ILLWOOD MAN	GARDEN	171		327		364					31	A C D		E	
HOLLY COURT	GARDEN	101		285		318					8	A C	A	D F	
HOLLY COURT	TOWNHOUSE	20				360		378			8	A C	A	D F	
HOLLYWOOD MA	GARDEN	91		211	220	230		267		283	12	A B C D	B		
HOLYWD GDN A	GARDEN	186		236	239	261	294	314			16	A B C D	A	D	
HUNTERS WOOD	HI-RISE	224		297							3	A B C D	A C		H J
HUNTINGTON A	GARDEN	66		250		285		325			40	A C	A		
IDYLWOOD VIL	GARDEN	312	279	329	389	379	399	468			15	A B C D	A	D E	
IDYLWOOD WES	GARDEN	396		350	365	384	428	448			9	A B C D	A	D E	J

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JOSR0636 AVERAGE RENTS FOR UNITS IN RENTAL HOUSING PROJECTS IN PROJECT NAME ORDER
FAIRFAX COUNTY, VIRGINIA JANUARY 1981

PROJECT NAME	TYPE OF UNITS	TOTAL UNITS	EFF	1BDR	2BDR /DEN	2BDR	3BDR /DEN	3BDR	ALL AGE 4BDR	UTILITIES INC IN RENT	AMENITIES	SALE UNITS
INTERNATIONAL GARDEN	G	90		318		348		408	17	A B C D	A	
JANNA LEE A GARDEN	G	316		282		311		344	9	C	A C D E N	
JEFFERSON GA GARDEN	G	66		108		288		348	30	A C D	J	
JEFFERSON VI TOWNHOUSE	T	809				308		338	33	A C	E F	
JOHNSON APTS GARDEN	G	8		200					30	A B C		
KALMIA LEE GARDEN	G	63		300		320			10	A B C D	A B	
KINGS GARDEN GARDEN	G	442		318	388	388	363	418	40	A B C D	A	
KINGS MANOR TOWNHOUSE	T	18						423	11		A E	
KROLLS MENSA GARDEN	G	142		298		348			10	A C	A C D E	
LAFAYETTE MS MID-RISE	M	282	328	348	368	398		448	17	A B C D	A D E J	
LAKE ANNE VI GARDEN	G	46	308	398		478			30	A B C D	A C D E J	
LAKE BARCROFT MID-RISE	M	190	308	358	378	408		488	18	A B C D	A D E J	
LAKEVIEW TH TOWNHOUSE	T	147				358		377	30	A C	A E	
LAUREL GLADE GARDEN	G	200		287		291		319	7	A B C D	A E	
LEE VALLEY GARDEN	G	242		338	368	378	408	448	13	A B C D	A D E	
MAGARITY MOD GARDEN	G	147	278	388	368	388		488	14	A B C D	A D E	
MARGATE MANO GARDEN	G	188	288	368	388	388		488	18	A B C D	A D E	
MAYFAIR HOUS GARDEN	G	288		388		418			16	A B C	A B D	
MERRIE LEE GARDEN	G	17		268		388	318	388	338	A C	A C D E J	
MERRIFIELD V GARDEN	G	784		388	318	338	348	388	12	A C	A D E F J	
MONTICELLO G GARDEN	G	733	288	337		384			13	A B C D	A B D E J	
MT VERNON A GARDEN	G	183		388		388		488	18	A B C D	A E	
MT VERNON IA GARDEN	G	32		328		828		888	18	A C	A C D E J	
MT VERNON 86 GARDEN	G	1,387		388		388		468	6	A B C D	A C D E N J	
MT ZEPHER GARDEN	G	23	238	388		388		488	20	A B C D	A	
MUNSON HILL MI-RISE	M	278	318	418	478	828		448	18	A B C D	A D J	
NORTHGATE AP GARDEN	G	448		388		438		498	18	A B C D	A B C D E F N	

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UDSR0635 AVERAGE RENTS FOR UNITS IN RENTAL HOUSING PROJECTS IN PROJECT AREA UNDER
FAIRFAX COUNTY, VIRGINIA JANUARY 1981

PROJECT NAME	TYPE OF UNITS	TOTAL UNITS	EFF	1BDR	1BDR /DEN	2BDR	2BDR /DEN	3BDR	3BDR /DEN	ALL 4BDR	AGE YRS	UTILITIES INC IN RENT	AMENITIES	SALE UNITS
OAKTON PARK	GARDEN	418		405	423	480	470	495			9	A B C D	A D E J	
OAKVIEW GARD	GARDEN	324		330	360	380	430	488			13	C	A D E G	
ORLEANS VILL	GARDEN	499		376	376	440					15	A B C D	A D	
ORLEANS VILL	TOWNHOUSE	352				465		537			15	A B C D	A D	
ORRINGTON CT	GARDEN	25	250	275		295					36	A C D	E	
PARK AVENUE	GARDEN	43				843					18	A C	A E	
PARK TERRACE	GARDEN	183		291	311	316	336	381			19	A C D	A D E	
PARKWOOD APT	GARDEN	220		270		380					33	A C	E	
PARLIMENT HS	HI-RISE	252	297	308		462					10	A B C D	A D H	
PARLIMENT VI	GARDEN	498		340	365	395	415	430			11	A B C D	A D E H J	
PATRIOT VILL	GARDEN	1,029		419	431	491	546	622			5	A B C D	A B D E	
PATRIOT VILL	TOWNHOUSE	36				531		619			5	A B C D	A B D E	
PEACHTREE	GARDEN	228		403	438	465	493	520			8	A B C D	A B C D E J	
PEACHTREE	HIG-RISE	112	366	436		526					8	A B C D	A B C D E J	
PENN DAW GAR	GARDEN	72		288		298		313			18	C	A B E	
PENNSBURY VI	GARDEN	124		325	335	350					12		A C D F J	
PINE SPRING	GARDEN	62	250	290		350					28	A B C D		
PINE SPRING	TOWNHOUSE	38				350		385			28	A B C D		
PINE SPRING V	GARDEN	493		333	360	364		407			15	A C	A B D E F H	
PINESPRING V	GARDEN	186		308		328		488			18	A C	A D E F	
PINEWOOD PL	GARDEN	198	246	273	287	322	382	421			16	A B C D	A B D E	
PRINCE FAIRF	GARDEN	264		328	348	365		425			17	A B C D	A D E H	
PROVIDENCE H	GARDEN	196	335	350		390		445			9	A B C D	A D E F	
RAVENSWOOD T	HIG-RISE	309	308	326		428					20	A B C D	A D E	
RAVENSWORTH	HI-RISE	219	406		470		538				8	A B C D	A B C D	
R VER TOWERS	HI-RISE	812	295	300		400		601			7	A B C D	A D E H	
ROBINWOOD GA	GARDEN	87	225	380		395		450			17	A B C D	A F	
ROLLING HILL	GARDEN	157	263	280		310		375			11	A C	A B D	
ROSEHILL APT	GARDEN	181		280		380					19	A B C	A D E F	

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JDSR0535 AVERAGE RENTS FOR UNITS IN RENTAL HOUSING PROJECTS IN PROJECT NAME ORDER
FAIRFAX COUNTY, VIRGINIA JANUARY 1981

PROJECT NAME	TYPE OF UNITS	TOTAL UNITS	EFF	1BDR	1BDR /DEN	2BDR	2BDR /DEN	3BDR	3BDR /DEN	ALL 4BDR	AGE YRS	UTILITIES INC	UTILITIES IN RENT	AMENITIES	SALE UNITS
RUSSELL APTS	GARDEN	9		160		180					17	A	C	F	
SEVEN CORNER	GARDEN	283		260		275					31	A	C B		
SKYLINE TOWE	HI-RISE	940	346	384	440	478	528	607			9	A	B C D	A D E G N	
SKYVIEW APTS	GARDEN	118		290	310	336		375		418	15	A	C	A D E J	
SOUTHERN MAN	GARDEN	711	296	336	363	377	427	498			13	A	B C D	A D E N	
SPRING GAR	GARDEN	206		201	225	244		276			14	A	B C D	A	
SPRINGFIELD	GARDEN	220		258		323		425			22	A	B C D	A D	
SPRINGFIELDS	GARDEN	411		323	341	363	375	388			14	A	C	A D E J	
SPRINGVALE G	GARDEN	98		336	350	369		440			17	A	B C D	A D	
STONEGATE	GARDEN	240		264		290		315		360	9	A	B C D	A D N	
STONELEIGH	TOWNHOUSE	21						540			11			A F	
STRAWBRIDGE	GARDEN	42		306		330					2			A C E	
STRAWBRIDGE	TOWNHOUSE	84		310		330		405		495	2			A C E	
STUART WOODS	GARDEN	458		326	348						7			A B C D F J	
SULGRAVE SQ	GARDEN	168		325	335	365	385	430			15	A	B C D	A D F	
SUNNIT OAKS	TOWNHOUSE	34				539		559			1			A B C E	
SUNSET PARK	GARDEN	90		276		309		350			20	A	C	A E F	
SYCAMORES AS	GARDEN	188		346		366		406			2			A B C E F J	
TER TH ANNAN	TOWNHOUSE	82		360		430		480			8			A B C D E F	
TER TH GUNST	TOWNHOUSE	52				339		379			7			A B C D E F	YES
TER TH WOOD	TOWNHOUSE	27				339					8			A B C D E F	
THOMAS EDISO	GARDEN	44	243	280	311	336					17	A	C	A E	
TYSONS TOWER	HI-RISE	274	313	340		394					4	A	B C D	A C H J	
VANTAGE HILL	GARDEN	151		385		420		470			16	A	B C D	A D E F J	
VIENNA PARK	GAR IN	299		306		338		393			17	A	C	A D E J	
VIENNA VILLA	GARDEN	32				315		365			14	A		A B J	
VILLAGE APTS	GARDEN	32		330		375					21	A	B C D	A C	
VIRGINIA VIL	GARDEN	344		345	360	400	415	458	495		16	A	B C D	A D E S J	

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FAIRFAX COUNTY, VIRGINIA JANUARY 1981

PROJECT NAME	TYPE OF UNITS	TOTAL UNITS	EFF	1BDR	1BDR /DEN	2BDR	2BDR /DEN	3BDR	3BDR /DEN	ALL 4BDR	AGE YRS	UTILITIES INC	UTILITIES IN RENT	AMENITIES	SALE UNITS
VISTAS OF VI	GARDEN	48		335		378		395			3			A B C D E F	
WASHINGTON S	GARDEN	219	260	325		370		428			16	A B C D		A D	
WEDGEWOOD FA	GARDEN	123		350	360	388	395	418	420		13	A B C D		A D E H	
WEDGEWOOD MA	GARDEN	128		325	335	358	360	390	400		18	A B C D		A D E H J	
WEDGEWOOD WE	GARDEN	408		350	360	388	395	418	420		13	A B C D		A D E H J	
WEDGEWOOD WE	TOWNHOUSE	15				500		550			13	A B C D		A D E H J	
WEST SPRINGF	GARDEN	242		385	404	434	461	492			3	A C		A B C D E	
WESTBRIAR A	GARDEN	106		324	332	357	369	409			16	A C		A D	
WEXFORD MANO	GARDEN	74		195		220		250		259	11	A B C		A B	
WILLSTON APA	GARDEN	247		290		340					30	A B C D		A D	
WILLSTON GAR	GARDEN	303		295		325					31	A C D		C J	
WILSTON NORT	GARDEN	244		250		273					31	A C D		E	
WILSTON SOUT	GARDEN	186		186		220					36	A C D			
WINTERTHUR A	GARDEN	300		390	405	420	438	470	500		8	A B C D		A C D E F	
WOODBURN VIL	GARDEN	604		380	400	440		536	550		11	A B C D		A D E	
WOODLAKE TOW	MI-RISE	620	320	370	415	433		505			10	A B C D		B C E F G	
WOODLAWN GAR	GARDEN	240		325		358		425			17	A B C D		A D E J	
WOODLAWN MAN	GARDEN	180		265	308	315	330	360	375		7	C		A D E J	
WOODLEY ARMS	GARDEN	32		246		263					10	A C		A	
WOODS OF FAI	GARDEN	311		308		348		398			2			A B C D E	
DISTRICT TOTAL		48,653	294	337	375	376	419	426	469	432					
FINAL TOTAL		48,653	294	337	375	376	419	426	469	432					

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Fairfax County
Redevelopment and
Housing Authority



July 1, 1980 - June 30, 1981

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HOUSING DEVELOPMENT

Public Housing

Yorkville provides homeownership for 238 Fairfax County families of low and moderate income.

Acquisition and Substantial Rehabilitation — One of the traditional roles of a local housing authority is developing, rehabilitating, and acquiring units under the Public Housing program. Through such activities, the Fairfax County Redevelopment and Housing Authority (RHA) now owns 502 public housing units, providing decent shelter for low and moderate income residents at rents they can afford.

In recent years, a significant number of rental developments which housed lower income families have been lost to condominium conversion. In an effort to preserve some units for low and moderate income families, the RHA acquired and/or rehabilitated 166 units in FY1981. Funds were provided by the U.S. Department of Housing and Urban Development (HUD) through the Public Housing Acquisition and Substantial Rehabilitation Program.

During the initial stages of condominium conversion, residents of Greenwood Apartments, located near Seven Corners, asked the RHA for assistance so lower income persons and families would not be displaced. The RHA responded to Greenwood residents by purchasing the 153-unit development in August 1980. Plans are underway to substantially rehabilitate the apartments and to redesign 30 one-bedroom units into 15 three-bedroom units. This work is expected to begin in the fall of 1981.

Thirteen units in the 979-unit Belle View Apartments located south of Alexandria were acquired in that development's first stage of condominium conversion in March 1981. In the final stages, the RHA plans to purchase 27 units to allow more low and moderate income families to remain renting their units at Belle View.

New Construction — In the fall of 1980, ground was broken for Robinson Square, a 46-unit cluster townhouse development. Named in honor of John E. Robinson, a former RHA commissioner, Robinson Square is being constructed adjacent to the RHA's new office building, located directly west of George Mason University's main campus and south of Fairfax City. Being built by a private developer under the turnkey method of public housing development, this new housing complex will feature its own community room and day-care facility. Residents of the RHA's assisted developments have been paying 25 percent of their income for rent and utilities.

For more than two years, the RHA has pursued the use of a public housing turnkey reservation VA-19-25. Originally Lotto Construction, Inc. submitted a proposal for 50 townhouses in Springfield known as Coventry. With the modification of the development program for that

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site from townhouses to single-family homes, HUD instructed the RHA to readvertise for developers' proposals for 30 single family homes. After this second invitation for proposals, Lotto Construction, Inc. was again the only developer to submit a proposal. In April 1981 rezoning of the site was approved.

Following public hearings under Section 15.1-456 (public facilities review) before the Planning Commission and the Board of Supervisors, the RHA acquired a 14.6-acre site in Centreville. The RHA used its revolving development fund for this land purchase. Plans are under way to construct a 44-unit townhouse development named Barros Circle under the public housing program and to sell the remaining property for conventional development.

Section 8 New Construction

Making use of the versatile Section 8 federal rent assistance program, the RHA completed construction of 185 units in two areas of the county. Using proffered land at Burke Centre, the RHA again joint-ventured with the Oxford Development Corporation for the construction of a 50-unit townhouse development under the Section 8 program. The development, called Summit Oaks, was fully occupied by March 1981. Collateral agreements between the RHA and Oxford enable the RHA to monitor management of Burke Centre-assisted developments and the achievement of a resident mix of 70 percent moderate income/30 percent low income families. Completed and fully occupied in June 1981, Edsall Station is a 135-unit Section 8 rental development near the Landmark Shopping Center for which the RHA furnished construction and permanent financing to the private owner.

With Saunders B. Moon Housing Development Corporation acting as co-sponsor, construction began December 1980 on Hunting Creek, a 35-townhouse development in Gum Springs. This assisted Section 8 development is expected to be completed by December 1981.

Housing Cooperatives

Following the election of the resident Board of Directors in July of 1980, the RHA transferred ownership of Island Walk to its low and moderate income residents. Using innovative planning and financing techniques, the RHA-sponsored Island Walk Cooperative in Reston was the first newly constructed cooperative to be approved by HUD under the Section 8 program. Through the Section 8 housing assistance program, residents have paid no more than 25 percent of their monthly income for total housing costs while having an ownership interest in their homes.

It is anticipated that ownership of the second housing cooperative sponsored by the RHA will be transferred to residents in September 1981. With more than 95 percent of the units sold by the end of June 1981, Yorkville provides homeownership for 236 Fairfax County families of low and



Thirteen units in Belle View Apartments were acquired for low and moderate income families.

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moderate income using the federal Section 8 housing assistance program. Development of Yorkville involved the acquisition, redesign and rehabilitation of an apartment complex which stood vacant and unattended for three years after being abandoned during construction by a private developer. Among the amenities at Yorkville are several two-level townhouse-type units for large families, a community building created from a former auto body shop, and a pool and bath house.

A corporation formed by the RHA called the Housing and Community Development Corporation (HCDC) serves as the general contractor of another Section 8 cooperative. This 30-unit back-to-back townhouse development called Briarcliff is under construction near Tysons Corner. Catholics for Housing, Inc., a nonprofit corporation, and CRICO Limited Partnership of Briarcliff, forming a general partnership known as Briarcliff Housing Associates, are the owners of the development. When HUD approval is secured, Briarcliff Housing Associates will lease the development to the residents.

The RHA also is working to develop cooperatively owned housing under the public housing program for the Gum Springs community. Planned for construction in 1982, the West Ford Housing Cooperative will be located on three separate sites and will consist of townhouses and single family detached units. The development is being sponsored by the Saunder B. Moon Housing Development Corporation and the RHA.



The RHA owns and manages apartments in Annandale.

Under cooperative homeownership, families work together to own and control their living environment. One mortgage covers the entire development and with down payments generally less than $1,000 depending on bedroom size, each family purchases a membership share in the cooperative corporation. The elected Board of Directors handles major policy matters concerning management, maintenance and finance.

The RHA plays a key role in sponsoring housing cooperatives, for there are few incentives for private developers to provide this kind of housing. The RHA's direct participation in forming cooperatives and in structuring their by-laws assures that, in the event of re-sale, the return on investment will be limited so that the units will remain affordable to low and moderate income families.

Moderate Income Direct Sales (MIDS) Program

The RHA's Moderate Income Direct Sales (MIDS) Program provides affordable housing to moderate income families. In FY1981, twenty-eight moderate income families moved into their own newly constructed townhouses in Newington Forest; and three families purchased homes in Sheffield Square, a townhouse development near Ft. Belvoir. With the Wesley Housing Development Corporation

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acting as sponsor and the RHA providing technical assistance and land donation, twelve families purchased single family detached dwellings at Mt. Pleasant Circle in Annandale. Site work at Brosar Park, a development of 37 moderately priced homes, began in March 1981 in Gum Springs through a joint development effort between the RHA and Saunders B. Moon Housing Development Corporation. Since 1978 when the RHA created this home sales program, 94 homes have been sold to moderate income families. Another 100 MIDS units are in various stages of planning and development in five different areas of the county.

Under this program, the RHA provides below market interest rate mortgages to moderate income families primarily through the Virginia Housing Development Authority and also local lending institutions. The majority of MIDS homes sold have been proffered to the RHA at the time of rezoning. With the developer generally selling the proffered units to the RHA free of land cost and the RHA paying a pro-rata share of infrastructure costs, the RHA sells the units at affordable amounts to eligible moderate income families.

Deferred second trusts, representing the difference between the sales price of the unit, less the purchaser's downpayment and the first mortgage, have been provided by county funds and a HUD Innovative grant. Special provisions are included in the second trusts which prevent windfall profits when the MIDS units are resold, ensuring that they remain available to future moderate income purchasers.

Several families purchased homes through the MIDS Program in Sheffield Square.



Minimizing Impacts of Condominium Conversion — As condominium conversion continues to deplete the supply of rental housing, the RHA is encouraging condominium developers to provide other forms of assistance such as discounts for purchase, long-term leases and outright reservation of units for low and moderate income families. The RHA is also considering purchase of developments or provision of tax-exempt financing to owners to preserve them as rentals.

Under the terms of a Memorandum of Agreement signed early in 1981 by the Board of Supervisors, the Condominium Developers Association, the Apartment and Office Building Association, and the Northern Virginia Builders Association, the Department of Housing and Community Development (HCD) was designated as the county's liaison with developers of conversion projects. The HCD also serves as staff to the Board of Supervisors' Subcommittee on Condominium Conversion in developing county strategy for dealing with the conversion problem and working with tenant groups to find alternative solutions. A new county ordinance requires developers to notify the county of their conversion plan at the same time they are filing a public offering statement with the Virginia Real Estate Commission.

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The RHA joint-ventured with a private developer to construct Summit Oaks at Burke Centre.



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HOUSING MANAGEMENT AND HUMAN SERVICES

udubon Apartments in the Groveton area rve elderly/handicapped residents.

Property Management

The RHA's dedicated professional staff of managers, placement officers, project representatives, maintenance, custodial and clerical workers contributes to the successful management and maintenance of the RHA's 502 public housing units. When small numbers of public housing units and developments are scattered throughout a geographically large jurisdiction such as Fairfax County, management and maintenance require more staff, time, and funds than when large developments are concentrated in a few locations. The excellent condition of the exterior and interior of the units, the well-kept landscaped grounds, and an atmosphere of cooperation among the residents attest to the RHA's competence and success in management.

The nature of management services provided by HCD staff varies according to the type of unit. Where the housing units are part of a condominium, the condominium association is responsible for maintenance of common grounds while HCD assumes landlord-type responsibilities for the maintenance of the interior of the units. In RHA-owned garden apartment complexes or townhouses, HCD maintains and operates the entire development.

In addition to maintenance activities, the HCD property management staff inspects all of its units, works with residents and adjacent community groups, coordinates unit rent-ups, and conducts orientation sessions for new residents. To further enhance this system, project representatives, as part of the resident management participation program, work to insure the health and welfare of the residents by responding to tenant problems and enforcing rules and regulations.

In addition to the regular maintenance program, substantial improvements and repairs to RHA developments have been made possible through the federally funded public housing modernization program. With $128,500 approved in FY1981, energy-saving storm doors were installed, with painting, carpentry, and fence repairs provided for Springfield townhouses. The funds were also used to install storm windows at Rosedale Manor and to repair the parking lot at Audubon Apartments.

The residents of public housing are encouraged to participate in existing tenant associations or to help form such an organization where none exists. Public housing residents serve on committees within their housing developments and have volunteered their time for special projects. The RHA also owns and provides maintenance for Fisher Hall, a 12-unit congregate facility for developmentally disabled persons receiving Section 8 rental assistance.

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RHA OWNED PUBLIC HOUSING UNITS

Rosedale Manor, Bailey's Crossroads	98
Audubon, Groveton (elderly/handicapped)	46
The Green, Reston	50
Reston, condominiums	16
Springfield, townhouses	36
The Atrium, Groveton	37
Annandale, condominiums	31
The Park, Springfield	24
Mt. Vernon, condominiums	13
Greenwood, Seven Corners	153
TOTAL UNITS	502

Human Services

The Human Services branch fulfills a wide range of responsibilities: resident selection and placement in public housing, implementation of the Existing Section 8 Program, housing and social service coordination and referral, maintenance of the assisted waiting list, and administration of the housing assistance payment contracts for three Section 8 developments.

In resident selection, placement officers make home visits, examine credit reports, and review rental references of persons on the waiting list before placement in the RHA's public housing units.

The Human Services branch also administers the Existing Section 8 or Finders' Keepers Program. While only 43 additional certificates were given to Fairfax County in 1981, a total of 736 families were participating in this program as of June 30, 1981, including 92 families residing in Falls Church and Fairfax City.

Under this program, eligible low and moderate income families receive housing certificates and then locate rental units on the private market. Participating families, while paying no more than 25 percent of their income for rent, execute separate leases with landlords to pay their share of the rent. The owners of the units must be willing to rent to families and the rents must fall under specified rent ceilings established by HUD. The administration of the program has required contacting and educating landlords to encourage their participation in the Existing Section 8 Program, counseling the families who receive Section 8 certification on the techniques of locating housing units, and annually recertifying participating families.

HCD administers housing assistance payment contracts for three privately owned Section 8 assisted developments totalling 310 units. These developments are Island Walk, Strawbridge Square, and Winter Hill. In FY1981, HCD staff began monitoring tenant selection, marketing, and construction of two developments: Briarcliff, a 30-unit townhouse development near Tysons Corner and Bridle Creek, a 132-unit development in Virginia Beach.

Relocation Assistance

The RHA provides relocation assistance to displaced persons and families under two sets of circumstances: when the RHA acquires the property under federal assistance programs, and when private developers undertake Section 8 substantial rehabilitation for apartment developments and the RHA approves relocation assistance.

After the RHA acquired the 153-unit Greenwood apartment complex in June 1981, it was necessary to interview all the remaining residents to determine their eligibility under the federal public housing program. Due to family size and income ineligibility under the federal regulations, three Greenwood families were relocated in FY1981 and received payments from the

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RHA for moving expenses and rental assistance.

In addition to relocation benefits to these apartment dwellers, relocation assistance will be provided to the residents of Woodley-Nightingale Mobile Home Park. Although it will be some time before redevelopment work begins, HCD's relocation staff is now advising the residents on future plans, publishing a monthly newsletter, providing necessary counseling and referral, organizing block captains, and sponsoring educational workshops. Relocation assistance was offered to three former residents displaced when the RHA acquired the Park as part of the Woodley-Nightingale Redevelopment Plan.

Through a cooperation agreement with the Alexandria Redevelopment and Housing Authority, HCD continued to provide assistance in relocating the remaining businesses and families in the Dip Urban Renewal Project in the City of Alexandria. HCD is working to interpret federal regulations and determine benefit eligibility for some displaced businesses.

Monitoring Non-RHA Assisted Developments

Having entered into participation and performance agreements with the owners of thirteen assisted housing developments totalling 1,155 units, the RHA reviews operation, financial stability and housing quality. When changes or modifications are needed, HCD recommends to the private owners those aspects of operating budgets, management or maintenance which should be corrected. The RHA's motivation for entering into these agreements stems from its desire to prevent physical, financial and social deterioration of privately owned assisted developments in Fairfax County.

Educational Study and Program

In an effort to better educate and communicate to the public the need for and the high quality of assisted housing in Fairfax County, the RHA initiated a study in the summer of 1980 to investigate attitudes of select demographic groups toward assisted housing. In the first and second phases of the study, Windsor Demaine and Associates administered questionnaires to county residents and held group discussions resulting in hypotheses regarding attitudes toward assisted housing. The attitudinal findings from these questionnaires will be used by Demaine and Associates to develop a public educational program on assisted housing in Fairfax County.

INCOME ELIGIBILITY PROGRAM REQUIREMENTS*

FAMILY SIZE	SECTION 8 HOUSING GROSS ANNUAL MAXIMUM INCOME		PUBLIC HOUSING ADJUSTED MAXIMUM INCOME
	Moderate Income Families	Low Income Families	
1	$15,100	$ 9,450	$13,600
2	17,300	10,800	15,500
3	19,450	12,150	17,500
4	21,600	13,500	19,450
5	22,950	14,600	20,650
6	24,300	15,650	21,900
7	25,650	16,750	23,100
8+	27,000	17,800	24,300

**Under the Public Housing and Section 8 programs, eligibility is determined by family size and total income. Family is defined as two or more persons related by blood, marriage or operation of law. Single persons are eligible if they are over 62, disabled, physically handicapped or displaced by governmental action. These were the effective maximum income limits for FY1981.*

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NEIGHBORHOOD IMPROVEMENT

playground constructed in ry's provides a safe play area he children.

Community Development Block Grant Program

In response to the passage of the U. S. Housing and Community Development Act of 1974, the Fairfax County Board of Supervisors adopted its first Community Development Plan and Program for Fairfax County in February 1975. With the adoption of a program for neighborhood improvement, Fairfax County was eligible to receive federal funds to improve and preserve low and moderate income neighborhoods. To implement this program, HCD undertook studies of existing conditions in designated lower income communities. Since 1975, neighborhood improvement programs and conservation plans have been adopted in eight communities: Bailey's, Lincoln-Lewis-Vannoy, Huntington, Fairhaven, Burgundy, Gum Springs, Chapel Acres, and James Lee. In addition, the RHA and the Fairfax County Board of Supervisors adopted a redevelopment plan for the Woodley-Nightingale Mobile Home Park.

Each year since 1975, Fairfax County has received an increased appropriation of Community Development (CD) Block Grant funds from HUD to improve low and moderate income neighborhoods. In several communities, the expenditure of CD funds and the provision of low-interest home improvement loans and grants have dramatically reversed neighborhood conditions. The scope of these undertakings ranges from construction of community centers and installation of public water and sanitary sewer service to rehabilitating individual homes.

Community Development Accomplishments in FY1981 — Participating for the sixth year in the federal CD Program, the RHA received entitlement funds of $4.4 million to carry out its neighborhood improvement activities in FY1981. Major public improvements which were completed in FY1981 include: two community center addjtions, two recreation areas, a road widening project, and sidewalk construction in the town of Clifton. In four different conservation areas, sanitary and storm drainage systems are in various stages of development, one of which is scheduled for completion by the end of the calendar year 1981. To reverse housing deterioration, the RHA provided low interest loans and grants totalling $1 million to 64 homeowners in FY1981. Forty-two homeowners benefited from the Home Repair Program for the Elderly and received repairs at no charge.

Fairfax County's successful community development activities were highlighted in a brochure entitled "Case Studies in Federal Spending—Ten Communities" published by the Virginia Association of Housing and Community Development Officials. The brochure featured improvements in the Bailey's community, and a long-time resi-

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dent of Bailey's spoke at the Association's annual legislative conference in March of 1981. In December 1980 the Fairfax County Board of Supervisors adopted the James Lee Conservation Plan which describes neighborhood conditions and outlines a program for improvement. The RHA took a major step in its efforts to modernize the Woodley-Nightingale Mobile Home Park by acquiring the Park on April 1, 1981.

Community Centers

Renovation and additions to the Burgundy Community Center were begun in April 1981. The center's heating and air conditioning system, kitchen, bathrooms, and storage areas were all upgraded with $80,000 in CD funds. An office, meeting room, and deck were added and the entire center was freshly painted inside and out. At the James Lee Community Center, a $140,000 commercial kitchen and storage area were completed to provide food service for ongoing day care and senior citizen programs, complementing existing recreational and instructional programs. Recognized for its outstanding architectural design by the Northern Virginia Chapter of the American Institute of Architects, the Huntington Community Center opened its doors in November 1980. Storm drainage and access road improvements, sidewalks, lighting, signs, and outdoor play equipment are also being added to the Huntington Community Center.

Recreation and Tot Lot Areas

A one-acre park featuring a biking-hiking trail connecting picnic areas to a tennis court, horseshoe pit, and a sliding-climbing structure was opened for residents of Chapel Acres. In the same area, a site was cleared, seeded, graded, and fenced for a future community center. The cost for both the recreation area and the clearing totalled $60,000. In Herndon, $185,000 in improvements were made to Alabama Drive Park, an 11-acre site adjacent to the lower income Elden Terrace Apartments. The park consists of two basketball courts, two baseball fields, one soccer/football field, climbing equipment, sitting areas, and parking spaces. The cost also included clearing, grading, landscaping and storm drainage improvements. At Jefferson Village, design for a third tot lot was completed and submitted to the management company for approval. Pimmit Park near Tysons Corner and Mt. Eagle Park adjacent to the Huntington and Fairhaven conservation areas are in master planning phases.



Renovations and an addition to the Burgundy Community Center were completed.

Streets and Sidewalks

An engineering design for the first phase of road and sidewalk improvements in Bailey's was completed. Rights of way and easements necessary for these improvements were acquired at a cost of $130,000. A consultant was hired to design the second phase of road improvements. In the town of Clifton 400 feet of sidewalk costing $15,000 were constructed along Main Street. Eighty percent complete in June 1981, Holyoke Drive in Annandale was widened and curbs and sidewalks were added. These

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improvements totalling $200,000 provided access to the moderate income development at Mt. Pleasant Circle. The parking area and rear sidewalk of the Annandale Senior Center were improved to comply with licensing requirements with expenditures totalling $12,000. Engineering on the second phase of street and sidewalk improvements was completed in Fairhaven. In Burgundy, a soil study was prepared to determine the feasibility of widening Burgundy Road, and a master plan for road improvements was completed for the county's newest conservation area, James Lee.



In four conservation areas, sanitary and storm drainage systems are in various stages of development.

Sanitary and Storm Sewer Systems

A $320,000 sanitary sewer system serving 50 homes in Chapel Acres is nearing completion. Design for upgrading and repairing Chapel Acres' storm drainage system in in progress. In Gum Springs, a storm drainage master plan involving a topographic survey, evaluation of existing drainage conditions, and a phased improvement program is now complete. In Lincoln-Lewis-Vannoy, the now completed storm drainage master plan will be implemented along with the planned sanitary sewer system. Constraints for design of this community's sanitary sewer system were stringent, but it appears that the RHA has now surmounted all technical and legal challenges and is proceeding with final plans and specifications. A master plan and design for the first phase of storm drainage improvements were also completed for the Fairhaven community.

Redevelopment Activities

One of the more significant achievements of the RHA in 1981 was acquiring the 44-acre Woodley-Nightingale Mobile Home Park for redevelopment purposes. After more than a year of litigation in the RHA's effort to acquire the property by condemnation, the court determined the market value to be $5,250,000. The RHA subsequently purchased the property for that price in April 1981.

The Woodley-Nightingale Redevelopment Plan adopted by the Board of Supervisors in 1979 serves as the planning and legal framework for redevelopment of the mobile home park. While redevelopment will take place in stages over the course of several years, necessary short-term improvements and actions began in FY1981. The RHA contracted with TechniCo-op, Inc. to manage the development. The previous overnight section was converted into a tot lot, the first play area to be developed in the park. Two vacant buildings on the property were demolished, potholes in the roads were filled and some sections of roads were re-surfaced. Fire safety inspections, fire safety presentations, and smoke detectors were made available to all residents.

In recognition of the RHA's unique approach to neighborhood redevelopment and its efforts to prevent displacement of residents, HUD awarded Fairfax

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County a $1.2 million innovative Grant for Woodley-Nightingale redevelopment. Fairfax County was one of twelve city and county governments in the country to receive this special grant.

Community Improvement Program

The Community Improvement Program is designed to upgrade older moderate income neighborhoods throughout Fairfax County. Many of these neighborhoods were developed before subdivision control ordinances required the installation of public facilities such as sidewalks, curbs, and gutters. Financing these necessary improvements is shared by homeowners in participating neighborhoods and by the county. Residents of Malcolm Heights in the town of Vienna became the first beneficiaries of the county's Community Improvement Program, administered by the HCD. With the Town of Vienna paying the homeowners' share and Fairfax County paying the balance of $217,000 in improvement costs, Lincoln and Highland Streets were widened and paved. Other improvements included installation of sidewalks, curbs, and gutters; correction of drainage problems; relocation of utility lines; and provision of landscaping.

With engineering drawings completed and easements secured, construction should begin early next year in the neighborhoods of Greenway Downs, Groveton, and Plymouth Haven. The passage of a county-wide $12.2 million bond referendum in November of 1980 ensured that these neighborhoods and others will receive needed improvements over a five-year period. Residents of two dozen communities have indicated an interest in the program.



Home repairs and improvements are made through the Elderly Home Repair Program.

Single Family Housing Rehabilitation

Home Improvement Loan and Grant Program (HIL&GP)

The Department of Housing and Community Development provides affordable rehabilitation loans and grants to homeowners who need to repair, modernize, or expand living space for their families. In FY1981, approximately $600,000 in low interest home improvement loans and grants was provided to 61 homeowners in conservation and target areas. Under HIL&GP, these rehabilitation loan funds were made available through a local bank commitment and CD funds. The federal CD funds are used to reduce interest rates on these loans, to provide outright grants in cases of financial need, and to provide staff positions to operate the program.

Fairfax County Rehabilitation Loan Program and Federal Section 312 Program

There are additional rehabilitation programs administered by HCD which are not limited to neighborhoods with adopted conservation plans—the Fairfax County-funded Rehabilitation Loan Program and the federal Section 312 Program. Since 1974, the Fairfax County Board

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of Supervisors has budgeted rehabilitation money to provide vital home repairs to homeowners whose homes have been cited for serious code violations by the Housing Hygiene Board. In most instances, these families have very low incomes and are only required to make small monthly payments for the renovation work made on their houses. In FY1981, ten county families received improvements totalling $233,500 to correct significant code violations.

Under the federal Section 312 Loan Program, nine low and moderate income homeowners received loans totalling $154,500 at 3 percent interest. This particular funding source was frozen by the federal government in March 1981.

Elderly Home Repair Program

Using $108,000 in CD funds, the Home Repair Program for the Elderly served 42 lower income elderly and handicapped homeowners in FY1981. Essential repairs such as painting, adding storm windows, and repairing gutters and roofs were made at no cost to the homeowners.

Energy Conservation Rehabilitation Loan Program

At the end of fiscal year 1981, the RHA received a $75,000 commitment from the Virginia Housing Development Authority. These funds will provide low and moderate income homeowners with affordable energy conservation and rehabilitation loans. Participating in this state program since 1979, HCD originates and processes loan applications on behalf of the Virginia Housing Development Authority for Fairfax County and the cities of Falls Church and Alexandria.

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FINANCIAL MANAGEMENT

The RHA's new office building at One University Plaza should be ready for occupancy for HCD staff in the fall of 1981.

Accounting, Financial Planning and Cash Management

The RHA's consolidated capital and operating budget was $80 million in FY1981. The controls and systems necessary to plan and account for these funds are being continually refined, re-evaluated, and improved through computerization and consolidation. Computerization of the RHA's operating funds has provided tighter financial control, improved the accuracy of cash flow analysis, and permitted more accurate evaluation and planning. For the first time, the RHA has consolidated its many program budgets in one document. This budget combines information on all of its programs and projects, thereby allowing more effective and efficient planning of resources.

Contributing 80 percent of the RHA's capital and operating budgets in FY1981, the federal government provided financial assistance for new construction assisted housing development, Section 8 rental assistance, the Community Development Block Grant program, and relocation payments. For the RHA's public housing, HUD furnished loans for construction financing and annual contributions to pay the debt service on the RHA's obligations. Under the Section 8 programs, HUD paid the difference between what low and moderate income households contributed and the fair market rent.

Fairfax County government contributed approximately 8 percent of the RHA's capital and operating funds. Assisting the RHA in its housing and community development activities, the county provided monies for the Rehabilitation Loan Program, second trusts for the MIDS Program, Revolving Development funds, and the construction of some public improvement projects partially funded with federal CD monies. Additionally, the County pays the salaries of 15 staff positions of HCD.

RHA-generated income comprises 11 percent of the budget. The source of this income is investment income through cash management and from fees earned from loan origination, mortgage loan servicing, and syndication of real estate.

Home Improvement Lending

The RHA operated four programs from various sources of local, federal, and private financing that provided over $1 million in home improvement loans and grants in FY1981. The financial administration of this program involved credit underwriting, loan processing through closing, and the in-house servicing of loans. Through cooperation agreements, the RHA was able to make loans available to low and moderate income homeowners in Fairfax City, Falls Church, the towns of Clifton and Herndon, and Loudoun County.

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Tax-Exempt Financing

Under enabling legislation by state statute and federal housing laws, the RHA issued tax-exempt notes and bonds to finance new construction and rehabilitation of multi-family housing developments. In addition to financing its own developments, the RHA provided construction and permanent financing to nonprofit housing development corporations and private developers of low and moderate income housing.

In FY1981 the RHA issued $3.2 million in construction notes and permanent bond financing for Briarcliff, a 30-unit Section 8 development near Tysons Corner and $7.8 million for a 132-unit Section 8 development, Bridle Creek, in Virginia Beach. Lowering the issuance cost for both, the Bridle Creek bond sale was combined with Briarcliff's. The issuance provided impetus for the development of 132 housing units for low and moderate income families.

The RHA also sold $1.1 million in notes and bonds for site development and construction of 37 single family units for moderate income families in Gum Springs. This issue was the RHA's first to provide construction financing for single family detached dwellings.

Another first for the RHA was a tax-exempt sale of notes and bonds for a private developer to construct an RHA public housing development. In FY1981 the RHA made a public offering of $3.6 million in notes, lending the proceeds to First National Bank of Maryland who in turn made a construction loan to Lotto Construction Company, Inc., the private developer who contracted to build this housing. By providing tax-exempt funds to the developer's construction lender, the RHA was able to reduce the price it will pay to purchase the completed development. Under the public housing turnkey program, once construction is complete, the RHA will purchase the development, known as Robinson Square, which is expected to be completed in FY1982.

Adjoining Robinson Square near George Mason University in Fairfax will be the RHA's new office building. Combined construction and permanent financing was provided through the sale of $1.7 million tax-exempt bonds. The building should be ready for occupancy for Department of Housing and Community Development staff in the fall of 1981. A portion of the new office building will be set aside for rental use.

Financing Moderately Priced Housing

Under the Moderate Income Direct Sales (MIDS) Program, forty-four homes were sold in FY1981 with over 30 additional homes being processed for closing. The Virginia Housing Development Authority provided over $2 million in below market rate first trust financing. Under a graduated payment plan, Arlington Fairfax Savings and Loan provided over $800,000 in first trust financing at favorable interest rates to twelve MIDS homeowners at Mt. Pleasant Circle. To supplement the first trust financing, the RHA used county and federal grant funds to provide second trusts. Fairfax County furnished funds in the amount of $500,000 for all MIDS homes sold in FY1981.

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COMMONWEALTH OF VIRGINIA
COUNTY OF FAIRFAX
ONE UNIVERSITY PLAZA
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DEPARTMENT OF
HOUSING & COMMUNITY DEVELOPMENT

FAIRFAX COUNTY
REDEVELOPMENT & HOUSING AUTHORITY
OR
UNDERSIGNED ENTITY

WALTER D. WEBDALE
DIRECTOR
(703)691-2914

April 21, 1982

600; 900; 1007

The Honorable Henry B. Gonzalez
Chairman
Subcommittee on Housing & Community Development
2252 Rayburn
Rayburn Office Building
Washington, D.C. 20515

Dear Chairman Gonzalez:

On March 23, 1982, I appeared before your Subcommittee on Housing and Community Development. At that time I indicated many of the problems that we are having in Fairfax County with budget cuts and changing housing programs. As you know, in Fairfax County there is a tremendous need to produce low income housing because of the great loss we are having through condominium conversion of our present rental stock. Upon completion of my testimony we discussed with you your bill, H.R. 5731, containing an innovative approach to getting some housing back into construction for low and moderate income families. I returned to the Fairfax County Redevelopment and Housing Authority, and at their regular meeting on April 13, 1982, they unanimously endorsed your program, and requested that I submit a letter to you indicating so.

Very truly yours,

Gerald W. Hopkins
Chairman
Fairfax County Redevelopment and
Housing Authority

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Chairman GONZALEZ [presiding]. Thank you very much, Reverend Hopkins, and we would now recognize the Reverend Lincoln S. Dring, Jr.

STATEMENT OF REV. LINCOLN S. DRING, JR., ON BEHALF OF THE ROBERT PIERRE JOHNSON HOUSING DEVELOPMENT CORPORATION, THE UNITED PRESBYTERIAN CHURCH, USA, HOUSING COMMITTEE, COMMUNITY MINISTRY OF MONTGOMERY COUNTY, AND THE INTERFAITH CONFERENCE OF METROPOLITAN WASHINGTON

Mr. DRING. Thank you very much. With your permission I would just like to skip through this testimony and I understand the text will be printed somewhere.

Chairman GONZALEZ. Without objection, the entire text will be entered in the record and you will proceed as you see fit.

Mr. DRING. I would like to make a couple of comments regarding the need for housing beginning on page 2. There has not been much comment so far about the impact on unemployment that is the result of some of the proposals, but rather than talk statistically I would like to back up to a human dimension of this need.

The bishop has in beautiful language pointed out what a house means to a person. In this language, we cannot ignore the terrible impact of degrading and indecent living conditions on people's perception of themselves and their future. The impact on families is found in our county just north of here, when the Department of Social Services' Foster Care Division testified recently before the county council to the major cause of family breakup in our county is lack of housing.

You are very well familiar with the impact on a community that housing has in terms of school integration, employment opportunities, transportation problems, energy conservation, and so forth.

I would like to comment next a little more elaborately in terms of the value of concern that the religious community has with the present administration. I am reading from page 4.

Our concern and our controversy is not a matter of detail but of questions of fundamental justice and decency. The administration proposals to get America back on the track represent not merely a shift in emphasis—a little less here, a little more there—they are, rather, a reversal in direction for this country as a whole and threaten the vision of America as the model and embodiment of a just and humane society. That is a quotation from the National Council of Churches.

The controversy between the religious community and the present administration is illustrated and comes to bear around the words "charity" and "justice." What is at issue in this debate is the question of what is the real and proper relationship between a society and its poor.

The present administration describes that relationship with the word "charity." The meaning of that word here is that the relationship is individual and voluntary and private, that is to say, poverty and poor people are not a matter of social significance or corporate responsibility. We relate to the poor voluntarily. That is, we choose to or choose not to.

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Care of the poor should be largely a private and not a governmental responsibility, according to this view. I and a very large part of the religious community utterly oppose this point of view. Poverty is a social problem. It has corporate causes and demands corporate responsibility. Care for the poor ought not to be left to personal whim or private institution. It is the responsibility of the whole community and, therefore, of its Government.

How we deal with our poor is for us a question of justice. Justice means that housing is a person's right, not a privilege or a gift. A right is a legitimate claim a member can make on the whole community. We believe that a decent community will secure to every member his right to the basic necessities of life such a food, clothing, shelter, and medical care. The difference between some major religious groups and the administration is stark and is significant, and we believe it is a moral matter, a question of values.

The most pervasive entitlement—this has not been mentioned but it needs to be set forth, I think, and I am reading from page 7 now—the most pervasive entitlement now in our housing in our country today is provided through the Federal income tax system. As you well know, if you make enough money to put together a down payment and can afford a mortgage, the homeowner investor deductions on your income tax emphasize your right to have a good house rather than hand over your money to the Government. More, the higher your income, the greater your right to housing.

Cushing Dolbeare of the Low Income Housing Coalition points out that the tax expenditures for this purpose in 1 year alone are greater than all the Federal payments for low-income housing in the history of public housing from the 1930's to the present. It is a shame. It is surely a bitter thing to observe the beneficiaries of such largesse running around resisting the Federal, State, and local programs that afford a decent roof for somebody else, but indeed such is the case.

Another serious problem we have that I just can't but mention is the problem that the cuts are really a shift—a shift, in part, to military spending. We feel strongly—and this is a groundswell of opinion, I assure you, Congressman—that the new militarism, with its buildup in weaponry, the emphasis on coercive power and the pattern of increased national aggression troubles the religious community very deeply.

For us the arms race is a profound moral issue. It plays on and builds up rather than redirects the forces of violence that are present in our culture and society. It saps the strength of our economy and our people and ironically but predictably it increases national insecurity and fear.

I will comment on the administration proposals only to say that we see that they put tremendous burden on people who are affected, low income people, and, as we have mentioned repeatedly, they rescind money that has always been set forth for badly needed programs.

I would like to comment briefly on what the impact of these programs will mean for our jurisdiction. There is going to be no hope at all for the 9,500 families that are on our waiting list now. It will mean that rent increases may be as much as 20 percent for low-income people in our community. It means—perhaps the most sig-

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nificant thing —that with the cutback in operating subsidies valuable housing developed over the years in Montgomery County—and I brought along some pictures which I will submit to the staff. It is beautiful stuff. It is not ugly. It is gorgeous and it is going to pot because of these cutbacks.

[The photographs referred to by Mr. Dring follow:]



Magruder's Discovery, Bethesda, Maryland, 130 Units, Section 8, Family Housing
(Sponsored by Housing Opportunity's Commission)

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Magruder's Discovery, Bethesda, Maryland, 130 Units, Section 8, Family Housing
(Sponsored by Housing Opportunity's Commission)

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Middlebrook Square, Germantown, Maryland, 70 Units, Public Housing (Rental Project) (Sponsored by Housing Opportunity's Commission)

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Toby Town, Potomac, Maryland, 30 Units, Homeownership, Public Housing
(Sponsored by Housing Opportunity's Commission)

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Bel Pre Square, Aspen Hill, Maryland, 50 Units, Turnkey III, Homeownership, Public Housing (Sponsored by Housing Opportunity's Commission)

Mr. DRING. Finally, let me just mention very briefly some of the things the churches have been doing in this area. One of the things we do is testify in local communities. I'm telling you, you take your life in your hands to go into some of these communities and say a word on behalf or in favor of something the people there are convinced will lower their property values, destroy their schools, and cause the rape of their wives and daughters.

To have the Government backing off of this is no help whatsoever. As you already have heard, churches are involved in housing of elderly persons. We are involved in nonprofit housing development corporations and I would point out that a couple of churches—and in this section I have footnoted all of this stuff—there are a couple of churches that are trying to build stuff without Government programs.

Little things can be done, and they set forth some models. Moreover, I mentioned that one of our churches north of our county is in the business of sheltering people. I mention to Mr. Vento that this has increased tremendously. We are suburban counties, nothing like downtown Washington, D.C., and there are references in the footnotes here to contacts that can substantiate this, and for Ms. Oakar's information we have a couple of projects going—three that might be of interest—in shared housing.

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There is a church that is putting elderly together in its congr tion in Chevy Chase to give them a place to live. Another gram—a very exciting one, I think—is called Operation Match by the housing authority in Montgomery County and in o places in Metropolitan Washington which puts empty nester gether with people that need rooms. A third thing that relate shared housing, and these are all footnoted, is a program we accessory apartments, trying to get zoning changes to allow effect, rooming—to make your house an asset and use it to tak roomers.

There is a fellow and I did not mention this man's name in text, but I would like to have it part of the record, named Hare. He has become something of a local expert on this sul and if she is interested in hearing how that kind of stuff works is a good one.

The reason I mention all of these—and there are many progr that the church is involved in—is that the people that are mos volved are the ones that know best that what they are doing i adequate and they know best that no real headway will be m until the Government really backs and joins the effort to pro housing for people in need.

Thank you.

[Mr. Dring submitted a prepared statement, on behalf of Robert Pierre Johnson Housing Development Corp., the Un Presbyterian Church, U.S.A., the Community Ministry of M gomery County, Housing Committee, and the Interfaith Confer of Metropolitan Washington, with the following appendixes: "L rus at the Gate: A Call to Renewed Ministries in Housing", " Right to a Decent Home: A Pastoral Response to the Crisi Housing"; "The Re-Making of America"; a paper of the Nati Low Income Housing Coalition "Call to Action"; "Economic Operational Impact on the Public Housing Program in Montg ery County, Maryland"; and an excerpt from the Congressi Record of April 24, 1980, "Federal Tax Reform Urged To A Renters, Rental Housing." The material follows]:

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TESTIMONY BEFORE THE HOUSING SUBCOMMITTEE,
CONGRESSMAN HENRY B. GONZALEZ, CHAIRMAN,
of
The House Banking, Finance, and Urban Affairs Committee

March 25, 1982

by

The Rev. Lincoln S. Dring, Jr.

From

The Robert Pierre Johnson Housing Development Corporation
The United Presbyterian Church, USA, Housing Committee
Community Ministry of Montgomery County
Interfaith Conference of Metropolitan Washington

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I am the Rev. Lincoln Dring, director of the Community Ministry of Montgomery County. This council of Catholic and Protestant churches was organized to coordinate the community service efforts of member congregations. We have been active in the area of housing as advocates for fair housing and for policies and programs which will help provide affordable housing for low and moderate income families in our county. We are just now moving forward on a Montgomery Habitat for Humanity project under which Christian people will be building homes for God's people in need without government funds. I will say more about this program later in this testimony. I am secretary of the Board of Directors of the Robert Pierre Johnson Housing Development Corporation, Inc., which is sponsored by our local Presbytery (National Capital Union Presbytery), and which has just built fifty units of 100% Section 8 garden apartments for low and moderate income people in northern Virginia. I was chairman of the Advisory Committee on Housing to the Program Agency of the United Presbyterian Church, USA. This committee prepared a major study paper ("Lazarus at the Gate") and policy statement ("A Call to Renewed Ministries in Housing") which were officially adopted by the 193rd General Assembly of this Presbyterian Church last June (1981.) I am chairman of the housing committee of the Interfaith Conference, which is an interreligious association bringing together for dialogue and social service leaders of Protestant, Catholic, Jewish and Muslim faiths in Metropolitan Washington.

I was asked to come here today by the Inter-religious Coalition on Housing of which I am a member. I do not claim to speak for all these groups because I have not had an opportunity to check my statement with them. On the other hand, I have not the slightest doubt - indeed, I am very confident - that this broad spectrum of church groups involved in housing - some local, some national,

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as practitioners and advocates - are all in full accord with the substance of what I have to say. I will gather my remarks under five parts: (1) the need for housing; (2) the attitude of the church toward the housing problem, a sharp dispute over values with the current administration; (3) some comments on the administration's proposals; (4) the effect of those proposals on the local level; and (5) what the churches are doing.

I. THE HOUSING CRISIS: HUMAN NEED AND SOCIAL MEANING

This is a time of housing crisis, especially for low income people. New production is at its lowest level in two generations. Rents in the private market are beyond the reach of millions of low income households. In Montgomery County, there are 9,000 families on the waiting list for public housing. An ever growing number of people are homeless - unable to find any accommodations whatsoever. Almost twenty percent of all construction workers are unemployed.

We are all familiar with the numbers that portray the human suffering associated with the housing crisis. I would like to speak briefly about the need for housing in another sense. I would like to point out that how and where and whether we shelter ourselves have great impact on other aspects of our personal and social lives. In the suburbs, we soon learn that land use and housing affect almost every part of the life of our community. With bricks and mortar we frame the context of social health and social justice.

The Catholic Bishops, in their statement, most sensitively and perceptively have set forth the relationship of housing and psychological health:

> "In particular, we take this opportunity to reflect on the consequences of poor housing. The physical and social environment play an important role in forming and influencing the lives of people. We cannot ignore the terrible impact of degrading and indecent iving conditions on people's perception of themselves and their future. The protection of the human dignity of every person and the right to a decent home require both individual action and structural policies and practices." [1]

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[1] The Right to a Decent Home: A Pastoral Response to the Crisis in Housing, a statement of the Catholic bishops of the United States, USCC, November 20, 1975.

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Housing affects family life, too. Just two weeks ago, the foster care division of the Montgomery County Department of Social Services testified before our County Council that lack of housing was the chief cause of family breakdown in their experience.

Housing affects families in another way because home is so often the focus for defining and communicating our values. The home can be the seat of hospitality and the base for community building and it can be the castle in which we hide and which we defend. We express our sense of beauty and pride with our homes, and we use them as means to welcome or exclude others. Houses are the most significant property owned by most families. Again, the Catholic bishops speak for most all Christians on this point:

> "Our faith teaches us that 'the earth is the Lord's' (Psalm 24) and that wealth and private property are held in trust for others. We are trustees of God's creation, and as good stewards we are required to exercise that trust for the common good and benefit of our brothers and sisters." [2]

So many of our community issues have been set by our ways of housing people. School integration and concerns about busing are, of course, closely tied to patterns of discrimination in housing. Employment opportunities are influenced by where you live. And likewise transportation problems are tied to housing development. We find the only land and/or housing available at all to people of limited means is up-county where there are few jobs and no public transportation. How we build our houses determines a large part of our energy consumption. An energy conservation team worked over an old frame church in our County, and changed the basic annual cost for fuel from $2700 to $400!

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[2] The Right to a Decent Home, op. cit., p. 3. As the Second Vatican Council pointed out, "God intended the earth and all that it contains for the use of every human being and people...whatever the forms of ownership may be, as adapted to the legitimate institutions of people according to the diverse and changeable circumstances, attention must always be paid to the universal purpose for which created goods are meant. In using them, therefore, a man should regard his lawful possessions not merely as his own but also as common property in the sense that they should accrue to the benefit of not only himself but of others."

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The basic need of housing is to get people shelter in decency, safety, and health. The need must be seen in terms of human suffering. The point here is that in the wed of personal and social interdependence, housing takes a central place. It affects so many issues so much.

II. THE HOUSING CRISIS: AN ISSUE OF VALUES

There has taken place a very significant change in attitude in the American Christian community: the churches in a new way feel responsible for the communities, for the nation, in which we live, and they are more ready than before to attempt to influence their worlds in accordance with the values they hold dear. Moreover, they are not content to confine their concern to the attitudes of individuals; they want to affect socio-economic policies, laws, and structures of society. This change is probably not all for the good - nor all for the bad - of our country, but good or bad, it is a change of significance for our times.

The churches' deep concern about housing today is caused not only by the tremendous human need housing means but also by the attitude taken by our government. And the problem there is not disagreement over details. No, we see fundamental injustice and indecency. To wit, the Governing Board of the National Council of Churches: The administration's "proposals 'to get America back on track' represent not merely a shift in emphasis - a little less here or a little more there. They are, rather, a reversal of direction for this country as a whole, and threaten the vision of America as the model and embodiment of a just and humane society." [3] There are three points that I would mention where the present administration and the religious community part ways on questions of value: on the right to decent shelter, on the role and meaning of wealth for society, on the military and the role of coercive power.

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[3] National Council of Churches of Christ in the USA. "The Remaking of America?", opening paragraph.

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The Governing Board of the National Council of Churches writes, "Since the havoc of the Great Depression, administrations of both parties have recognized an ultimate responsibility in the federal government to promote conditions in which all members of this society have enough to eat, a decent place to live, a basic education, and the necessities of a minimum standard of living, not as a matter of charity but of entitlement." [4] The Catholic bishops of the United States state, "We begin with the recognition that decent housing is a right. Our Catholic tradition, eloquently expressed by Pope John XXIII and Pope Paul VI insists that shelter is one of the basic rights of the human person. The Second Vatican Council has said with great directness: 'There must be made available to all men everything necessary for leading a life truly human, such as food, clothing and shelter....'" [5] So say all the major Christian denominations in America.

The present administration takes the opposite view. "The idea that's been established over the last ten years that almost every service that someone might need in life ought to be provided, financed by the government as a matter of basic rights is wrong." [6]

In the religious community, this controversy with the administration has been defined around the words "charity" and "justice." What is at issue in this debate is the question: What is the real and proper relationship between a society and its poor. The present administration describes the relationship in terms of the word "charity." The meaning of that word here is that the relationship is individual, voluntary, and private. That is to say poverty and poor people are not a matter of social significance or corporate responsibility. We relate to the poor voluntarily, i.e., we may choose to or choose not to. Care

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[4] NCC, "The Remaking of America?" op. cit., paragraph IA.

[5] The Right to a Decent Home, op. cit., p. 2.

[6] David A. Stockman, Director of the Office of Management and Budget, New York Times, March 29, 1981.

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of the poor should be largely a private, not a governmental, responsibility. I and a large part of the religious community utterly oppose this point of view. Poverty is a significant social problem; it has corporate causes and demands corporate responsibility. Care for the poor ought not to be left to personal whim or private institutions; it is the responsibility of the whole community, i.e., its government. How we deal with our poor is a question of justice.

Justice means that housing is a person's right, not a privilege or a gift. A right is a legitimate claim a member can make on the whole community. A decent community, we believe, will secure to every member his right to the basic necessities of life: food, clothing, shelter, medical care. The difference between some major religious groups and the administration is stark and significant. It is a moral matter, a question of values.

The refusal to secure basic rights to the poor, the weak, and the few, abandons the principle of social entitlement to wealth and power. By policy, the administration honors the wealthy as it dishonors the poor. It has increased the tax advantage and government favor to personal and corporate wealth. In Montgomery County where I live, the loss of funds for social programs to benefit low income people amounts to about $25 million; the increase in funds largely for upper middle and high income individuals due to tax reductions will in 1983 be $157 million!

One of the major problems faced by low income and especially elderly persons is the loss of housing they were renting due to conversion to condominiums. Congressman Mike Barnes of Maryland's 8th District had a study done by the Congressional Research Service. [7] It shows the heavy tax advantage given conversions.

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[7] A copy of this study appears in the appendices.

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"The most pervasive entitlement in housing is provided through the federal income tax system: if you make enough money to put together a down payment and can afford a mortgage, homeowner and investor deductions in your income tax emphasize your right to have a good house rather than hand your money over to the government. More, the higher your income, the more "right" to housing you have. (Oushing Dolbeare of the Low Income Housing Coalition points out that the tax expenditures for this purpose for one year are greater than all the federal payments for low income housing in the history of public housing, from the 1930's to the present!) It is surely a bitter thing to observe the beneficiaries of such largesse running around resisting the federal, state and local programs that might afford a decent roof for somebody else, but such is the case." [8]

A value question is at stake in this policy. The whole nation is affected.

Another serious moral concern of the churches regarding the federal budget is related to the fact that the budget has been not so much cut as shifted - shifted toward military spending. The new militarism with its build-up of weaponry, the emphasis on coercive power and the pattern of increased national aggression trouble us deeply. "Nuclear superiority and the capacity to project overwhelming military power anywhere in the world are proposed as basic national policies. Resources that previously contributed, however inadequately, to efforts to improve life, are now to be diverted to produce more weapons of death, increasing inflation and accelerating the international arms race. Although the United States and the Soviet Union both have more than enough strategic nuclear warheads to kill the earth's people several times over, yet further weapons escalation is proposed." [9]

We mention the arms race in testimony on housing because it diverts and wastes resources needed to combat the housing crisis. But that is not the only

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8 Lazarus at the Gate, adopted by the 193rd General Assembly of the United Presbyterian Church, USA, May, 1981, p. 23.

9 "The Remaking of America", op. cit., paragraph IE.

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reason. We also mention it because the nuclear threat is an overriding concern that affects every concern, every issue, every family. Recognizing this, the County Council where I live endorsed the nuclear arms freeze. For us in the religious community the arms race is a profound moral issue. It plays on and builds up rather than redirects the forces of violence in our culture. It saps the strength of our economy and our people, and ironically but predictably, it increases national insecurity and fear.

III. THE HOUSING CRISIS: MADE WORSE BY THE ADMINISTRATION'S PROPOSALS

The budget [10]*** proposals for the low income housing of the Department of Housing and Urban Development clearly have two objectives:

First, tenants are to bear the major burden of cutting housing outlays. This would be done primarily through redefining "income" for the purpose of calculating tenant contributions and by lowering the "fair market rents" on which the amount of subsidy in existing units is based.

Second, funds already appropriated for additional low income housing are to be recaptured. This is to be done by (1) rescinding the 1982 appropriation for newly constructed or substantially rehabilitated units; (2) cancelling projects now "in the pipeline" for which subsidy commitments have been made; and (3) converting present long-term subsidy contracts, where possible, to short-term contracts with a reduced subsidy base. With the exception of 10,000 units for the elderly and 30,000 units for a new rental rehabilitation program, and some public housing modernization, all recaptured funds are either to be returned to the Treasury or used to convert present subsidies to shorter terms or lower amounts. Budget authority for low income housing to be rescinded totals $16.4 billion for 1982 and 1983 alone. Rescissions are projected to continue through 1986.

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[10] The material between the asterisks is from the work of Cushing Dolbeare, of the Low Income Housing Coalition, 215 8th Street, N.E., Washington DC, 20002; tel. 544-2544. Many of the groups I speak for today (CMMC, RPC, United Presbyterian Church) are members of LIHC.We support her work. She speaks for us.

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The rural housing programs of the Farmers Home Administration (FmHA) fare slightly better, sustaining a two-thirds cut in program level for 1983, but they are slated to be virtually terminated in 1984.

Instead of expanding housing assistance to meet the growing needs of low income people as the affordable supply of rental housing dwindles, the Administration proposes massive rescissions and recaptures of already appropriated funds. Moreover, proposed rent increases and arbitrary ceilings on the amount of assistance frustrate the purpose of low income housing programs, both by making subsidized housing unaffordable for millions of low income households and by jeopardizing the continued operations of hundreds of low income housing projects.

In place of these very harsh and severe measures, we urge Congress to maintain this nation's commitment to meeting the housing needs of low income people by:

1. Preserving the present stock of assisted housing, in viable condition, without ruinous rent increases;

2. Producing the housing now in the pipeline as rapidly as possible by rejecting any proposed rescissions or deferrals of already appropriated funds, and effectively opposing any arbitrary efforts by the Administration to terminate commitments for low income housing assistance.

3. Supporting production and rehabilitation programs which will benefit lower income people. This includes the present Section 202 housing program, low rent public housing, and other approaches which are compatible with this objective;

4. Maintaining an adequate level of rural housing programs, including rental assistance, home ownership, farm labor housing, self-help housing and the water and sewer programs which are required for development in rural areas.

We call on the Congress of the United States to act decisively to meet these housing needs.***

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I have been speaking for the most part about issues regarding affordable housing and which affect people who are weak because they have so little money. Now I wish to turn briefly to issues of fair housing, which affect people who are weak because they are few in number and/or because they bear a certain racial, ethnic, or sexual stigma. They are often the same people. The rights of these people are set forth in fair housing legislation which provides little enforcement authority to protect or secure those rights.

The administration's budget proposals will adversely affect fair housing and the people this principle is meant to safeguard. It is mostly black, Spanish, and Asian peoples whose rent will be doubling and tripling over the next five years, if the Reagan proposals become law. The loss of federal support for new construction means the end of the best hope and means of integrating the suburbs. The general withdrawal of federal government initiatives and involvement will leave to private business - and to the real estate industry in particular - the protection of the rights of these weak, poor, and minority peoples.

IV: THE HOUSING CRISIS: A LOCAL PERSPECTIVE

The impact of the administration budget proposals on local housing authorities in general can be illustrated very effectively by the example of the Housing Opportunities Commission of Montgomery County, an agency with an outstanding record of providing housing for low and moderate income families. Programs at HOC are already threatened by provisions of the Housing and Community Development Amendments of 1981 which mandate that in the future only 5% of families occupying public housing and Section 8 projects may fall within an income range of 50-80% of area median incomes. This requirement is expected to cause problems in four areas:

1. It is generally agreed that there is a demonstrated need for a significant proportion of tenants at an income level above 50% of median to provide social

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leadership in assisted housing developments. Lack of this leadership leads to deterioration of projects and can be illustrated by the unfortunate fate of the Pruitt-igoe project.

2. There are families who have been on the HOC waiting list as eligible Section 8 Lower Income applicants for as much as three years. They will be denied housing under this new rule, with an obvious adverse impact on morale.

3. It is anticipated that the fact that HOC can no longer assure neighbors that the housing projects will be occupied by families with a wide range of incomes will guarantee universal opposition to any and all new assisted housing.

4. It will no longer be feasible for developers of market rate housing subdivisions to provide 20% of their units as assisted housing. The rule will require that 95% of the 20% be Very Low Income, which means that fully 19% of the total project be occupied by families with incomes below 50% of median. That is a totally unacceptable concentration of low income families.

The Budget Proposals will add to the already severe problems of the local housing agency new constraints which can only be regarded as crippling:

1. The virtual halt to housing production for low income families means simply that there will be no hope at all for the 9,500 families on the HOC waiting list. We can only guess what the impact of that cruel blow will be, but social unrest is probably a conservative way to put it.

2. New public housing rent determination will cause radical increases in rent payment, perhaps up to 20%. Many low income tenants will choose to move out of public housing. Others will fall behind in rent payment, and there will be massive increases in evictions with all the hardship eviction entails. Units will become overcrowded. There will be pressure on the limited supply of low rent, generally substandard, housing in the private market.

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3. The proposed cutback in public housing operating subsidies may well be the most devastating of all "economies" in this budget. HOC will encounter cash flow problems, which will require cutback in tenant services and create strains on families needing counseling and guidance. Staff will have to be reduced, making it impossible to maintain units in fully liveable condition. There will be vacant units and probable vandalism. And worst of all, as one bad thing leads to another, conditions may lead to rent strikes, litigation, and ultimate bankruptcy of the agency. Valuable housing developed over the years may become derelict and an enormous investment of tax money will be thrown away.

Although everyone wants to see increased efficiency and economy in the operation of government, and although many believe that housing programs have been administered by HUD at less than the most cost effective level, we see no need to throw away everything that has been learned and invested during the course of the last fifty years.

We suggest, rather, that procedures be instituted that will facilitate, if not mandate, a new cooperation between HUD and agencies at the local level. There are throughout the country Local Housing Authorities with experience and imagination. A partnership of such local and federal agencies would be capable of carrying out demonstration projects to test the usefulness of manufactured homes for providing decent shelter at lower costs than those prevailing in current projects. Similarly, local programs, like Montgomery County's Moderately Priced Dwelling Unit Program, could be combined with federal funding to create a supply of public housing at lower costs while providing a genuine dispersal of units throughout the developing areas of the County. Other areas would have programs already tailored to local needs - uniform, nationwide programs may not be best for the future.

Finally, all of us working at the local level have observed a bureaucratic phenomenon which is, to say the least, counter-productive. That is a passion for

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the details of process which gets in the way of fulfilling the purposes of HUD programs. There may not be any remedy for this malady of government, but the Congress ought to be aware of it and on guard.

F. THE HOUSING CRISIS: WHAT THE CHURCHES ARE DOING

I'd like to conclude this testimony with some references to what churches are doing to help with the overwhelming need. You should understand that the observations that follow name just the efforts going on in the metropolitan Washington area and only those that have come to the attention of this one observer.

1. Churches [11] are standing up for the housing rights and needs of low income people before local authorities. One of the major obstacles to assisted housing, as you must know well, is neighborhood resistance. [A new word has been invented in this regard: NIMBY (Not In My Back Yard!)] Let me say that it takes so little courage and conviction to face hundreds of very angry members of the local civic association and speak in favor of what they are convinced will lower their property values, destroy their schools, and cause the rape of their wives and daughters!

2. Churches [12] have provided and continue to provide housing and a variety of services to elderly people. There are a large number of such homes for elderly in this vicinity.

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[11] Three major local advocates are: (a) Community Ministry of Montgomery County, 114 West Montgomery Avenue, Rockville MD, Tel: 762-9407; Contact, Mrs. Peg McEvoy; (b) The Interfaith Conference, 1419 V Street, N.E., Washington DC, 20009. Tel: 234-6300. Contact, The Rev. Clark Lobenstine. (c) The Office of Social Development, Archdiocese of Washington, P.O. Box 29260, Washington DC 20017, Tel: 853-4547. Contact, Mr. Randy Kessler.

[12] The Presbyterian Home of D.C., 3950 Military Road, Washington DC 20015. Tel: 363-8310. Contact, the Rev. Robert Earle Bell.

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3. Churches[13] have formed non-profit housing development corporations, and using government programs have built homes for low and moderate income people.

4. Church people have also been building houses for God's people in need without using government funds. Habitat for Humanity,[14] headquartered in Americus Georgia (and with branches all over the world, including this area) gets homes constructed for poor people by providing interest-free loans (with money borrowed at no interest from Christian people), by using volunteer labor, and by building only a modest house that meets the basic needs for health, safety, and decency. Jubilee Housing also [illegible] in Washington, D.C. is doing much the same thing.

5. Churches[15] are providing emergency shelter for the great and growing numbers of homeless people that come to our doors. Several congregations in Gaithersburg, Maryland, about thirty miles north of here, banded together and rent a house for this purpose. One congregation in downtown Washington takes the folks into the church building where they sleep on cots under the care and supervision of a church officer.

6. One church[16] in suburban Washington is developing homes for group living by members of its congregation.

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[13]Three examples: (a) Catholics for Housing, 2666 Military Road, Arlington VA 22207, Tel: 528-5606 Contact Mr Maury Flood (b) Robert Pierre Johnson Housing Development Corporation, 2666 Military Road, Arlington VA 22207. Tel: 529-4606. Contact: The Rev. James Macdonell (c) Wesley Housing Development Corporation, 3900 King Street Alexandria VA 22302. Telephone: 379-9477. Contact: Mrs. Virginia Peters.

[14]The preamble to the by-laws of a local Habitat for Humanity group appears in the appendix. They can be reached through Community Ministry of Montgomery County, op. cit. te 762-9407 The headquarters of Habitat for Humanity is 419 W. Church Street, Americus GA 31709, Tel: 912-924-6935. Jubilee Housing Inc., 1750 Columbia Road NW, Washington DC 20009, Tel: 332-4020. Contact: Mr. Robert Boulter

[15]Examples are: Gaithersburg-Rockville Emergency Shelter, 5818 Vandergrift Ave., Rockville MD 20852, Tel: 948-1955. Contact: John Caricofe; Luther Place Memorial Church, Thomas Circle, Washington DC. Tel: 667-1377. Contact The Rev. John Steinbruck.

[16]Chevy Chase Presbyterian Church, One Chevy Chase Circle, Washington DC 20015. Tel: 363-2204. Contact:Mr. John Kean.

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7. One church [17] group is borrowing the innovation of one suburban jurisdiction for use in another. The innovation is called "Operation MATCH." It is basically a brokering service which matches folks seeking a room with folk (often elderly "empty-nesters" who want or need someone around and need the extra income) who can provide a room in their home.

8. One church [18] organization has become a major advocate of a plan which appears to offer one of the quickest, cheapest, and easiest means of increasing our supply of affordable housing. It is called Accessory Apartments. As one spokesperson says, it is an idea whose time has come - again. The plan simply calls for the zoning law changes necessary to allow converting a one-family house to accommodate two families.

This is not a long list but, remember, it is only one person's awareness of the efforts in one area. A major reason for mentioning these groups is to give some grounding and backing to the fact that there is unanimity among these folks who are really doing their best and utmost to help, that the churches' efforts are inadequate in the face of the overwhelming need for housing; and that no real headway will be made until the government really backs and joins the effort to provide housing for people in need.

Thank you very much for this opportunity to share the views of some church groups re: the housing crisis, and for your kind attention to these remarks.

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[17] The innovator is: Operation MATCH, Housing Opportunities Commission, 1400 Fenwick Lane, Silver Spring, MD 20910. Tel. 565-5778. Contact: Marge Levenson; The church group is RPJ, op. cit.

[18] The Interfaith Conference, op. cit.

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"There was once a rich man, who dressed in purple and the finest linen, and feasted in great magnificence every day. At his gate, covered with sores, lay a poor man named Lazarus, who would have been glad to satisfy his hunger with the scraps from the rich man's table. Even the dogs used to come and lick his sores. One day the poor man died and was carried away by the angels to be with Abraham. The rich man also died and was buried, and in Hades, where he was in torment, he looked up and there, far away, was Abraham with Lazarus close beside him. "Abraham, my father," he called out, "take pity on me! Send Lazarus to dip the tip of his finger in water, to cool my tongue, for I am in agony in this fire." But Abraham said, "Remember, my child, that all good things fell to you while you were alive, and all the bad to Lazarus; now he has his consolation here and it is you who are in agony. But that is not all: there is a great chasm fixed between us; no one from our side who wants to reach you can cross it, and none may pass from your side to us." "Then, father," he replied, "will you send him to my father's house, where I have five brothers, to warn them, so that they too may not come to this place of torment?" But Abraham said, "They have Moses and the prophets; let them listen to them." "No, father Abraham," he replied, "but if someone from the dead visits them, they will repent." Abraham answered, "If they do not listen to Moses and the prophets they will pay no heed even if someone should rise from the dead" (Luke 16:19-31).

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Lazarus at the Gate

(A Background Paper)

and

A Call to Renewed Ministries in Housing

(Adopted by the 93rd General Assembly [1981] of the United Presbyterian Church in the U.S.A.)

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FOREWORD

In November 1979, the Program Agency of the United Presbyterian Church appointed an ad hoc committee to help explore ways in which the church could strengthen and enhance its housing ministries. As part of its work, the committee prepared this background report, discussing the dilemma of a growing shortage of decent, affordable housing, highlighting the biblical basis for housing ministries, and exploring the roles which the church can play in addressing critical housing needs. The committee members included: Rev. Lincoln Dring (Chairperson), Rockville, Maryland; Rev. Samuel Appel, Camden, New Jersey; Rev. James Carter, Denton, Texas (deceased); Mrs. Marguerite Hofer, Pittsburgh, Pennsylvania; Rev. Laura Jervis, New York, New York; Rev. Donald Register, Chicago, Illnois; Ms. Jan Sharpless, Sacramento, California; Rev. William Thomas, David, Kentucky; Mr. Douglas Brian, staff. The final writing was done by the Rev. James Gittings, United Presbyterian editor, *A.D.* Magazine.

The committee offers this report to the church as a study resource for seeking a more faithful witness and ministry in the struggle for decent housing for all people.

The parable of the rich man and Lazarus, Luke 16:19-31, is from *The New English Bible*, © by the Delegates of the Oxford University Press and the Syndics of the Cambridge University Press, 1961, 1970. Used by permission. All other Scripture verses in the text are from the Revised Standard Version of the Bible, copyrighted 1946, 1952, © 1971, 1973.

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Preface

As a pastor of a church in New York City, I am painfully aware of the shocking shortage of housing for citizens of the municipality. The scarcity of housing has caused great increase in cost in housing for everyone. The provision of shelter is scandalously high in cost for everyone, but is an absolute disaster for middle income and low income people. A recent survey by the Community Service Society revealed that there were 35,000 homeless people in New York City alone. That is enough people for a small city.

We are in an even more desperate situation with the extremely high interest rates which currently prevail and the administration's effort to reduce and wipe out various housing programs which have been of some limited help in the past.

I hope that all Presbyterians will read with care the material following this introduction and will do their best to commit themselves to better housing for everyone.

In some instances local congregations, presbyteries, groupings of churches may be able to provide seed money for limited cost housing in order to directly provide for shelter for the poor. The more important task is the mobilization of citizen concern in order to revive the flagging housing industry in the struggle to provide decent housing. The construction unions should certainly be interested in getting new housing and the rehabilitation of old housing under way. Middle-income people who are rapidly being priced out of the housing market can in this instance be the allies of low-income people who are already priced out of the housing market and in fact often shoved out into the street. For once the Christian call for justice and the self interest of our constituency are running closely together. We need

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to understand exactly what the situation is in regard to housing and bring together this latent coalition of diverse forces.

The West Park Church and its ecumenical partners have together been involved through the West Side Federation for Senior Housing in the provision of well over 500 units of housing during the last 3 years. No single congregation or single denomination could have provided the systematic approach to the housing need. Still it is a very minimum response to a mammoth shortage. We need to build on limited experiences such as these that have occurred in other large cities, smaller cities and rural areas as well, and move forward with intelligence and compassion to provide this basic human need of shelter.

In Isaiah 65, verse 21, we read, "People will build houses and get to live in them—they will not be used by someone else." We are in an even worse situation than that from which Isaiah is suggesting in his vision that we will be delivered. *We* are in a situation where only the very rich can afford new houses and the stock of older housing becomes less and less. Yet Isaiah's vision should be our guide as we struggle to build the new creation to which Christ has called us.

Robert M. Davidson
Moderator
193rd General Assembly (1981)
United Presbyterian Church in the U.S.A.

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1785



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Lazarus at the Gate

A Call for a Christian Response to the Crisis in Housing

INTRODUCTION

Prelude to Remedial Action

Building a house in America has never been easy. The earliest pioneers took time from clearing stumps to help new arrivals erect their cabins; many a colonial village dweller borrowed money for a roofbeam from his town's rich man and summoned brothers and sisters from the local church to set studding for a new house. Such processes for building were crude and informal but somehow, together, people of early America took care of the problem of shelter for each other.

Our country grew and prospered. Soon there were carpenters rather than neighbor-volunteers who raised the new house. As time went on the carpenters became contractors, the contractors became builders, the builders became developers. Concurrently, local rich men took initiatives to start building and loan societies and banks. The banks became consortia, and finally we had something called a home loan pool. All of these elements, together, comprised what we came to call the national housing

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industry, a maze-like entity that was nevertheless useful to the people. Somehow, together, Americans took care of the problem of shelter for most of the nation's citizens, though increasing numbers of the poor were denied the benefits of the process as it became more and more complicated. Nevertheless, and on balance, Americans have had cause to be proud of our national accomplishment in homebuilding.

Now, however, in city and countryside warning flags announce the imminent failure of this system for providing shelter. All available data, the evidence of our eyes and senses, and the almost unanimous voice of housing experts in industry and government combine to tell us that today the American situation in housing is fast becoming a national shame and disgrace that is, or ought to be, impossible for worshipers of a just God and followers of a compassionate Christ to contemplate except as prelude to remedial action.

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Chapter One
Tears for Jerusalem
Facts About Housing in Today's America

No American can escape superficial knowledge of our country's national housing crisis; Lazarus is at the gate of every small town and city. Along rural roads, firetrap housetrailers and shacks of the aged and the young occupy 60 by 60-foot lots; within perimeters of the metropolitan beltways, aged persons, blacks, Hispanics and members of other ethnic or economic minorities inhabit dwellings, apartments and furnished rooms that grow more shabby, rat-infested and difficult to heat with every passing day. Meanwhile, those of us who possess more adequate incomes are discovering that our capacity to provide ourselves with decent housing is being painfully tested as rising costs of land, maintenance and utilities combine with high mortgages interest rates and rising property taxes to eat away disposable income and erase our capacities to own, maintain and improve our dwellings. To a degree, at least, we are *all* in difficulty, together.

The symptoms of the housing malaise are everywhere so visible that most Americans feel that local observation provides an adequate grasp of the problem. In fact, this is seldom the case. The most common error arising from on-the-spot diagnosis is that which causes people to confuse symptoms with causes and leads them to attribute poor housing conditions to apathy, or poverty, or lack of concern for maintenance, or the greed of absentee owners. The national problem is too broad, too deep, too pervasive and complicated to lend itself to so facile a set of explanations. Moreover, available data on dimensions of the crisis point to causes that lie elsewhere.

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New housing starts in 1979 for the entire nation totalled 1.7 million units, and new starts in 1980 will be about at the same level. The figures require adjustment to be understood. In gross terms, experts estimate that 2.2 million to 2.7 million units should have been constructed annually in the nation during the decade of the '70s. But to discover how many units actually have been added to the total of American habitations in 1979 for example, one must subtract from the 1.7 million 1979, units more than 400,000 units to compensate for dwellings lost through fire, flood, tornado, and demolition to accommodate highways, commercial construction, redevelopment and so forth. In addition, the annual figures must be reduced by a further 250,000 or more dwellings abandoned by inhabitants due to deterioration and population shift. These abandoned dwellings include not only the familiar gone-to-the-city houses that one sees standing hollow-eyed along roads in the deep countryside, memorials to changes in farm size and agricultural methods, but also the thousands of houses that stand vacant in cities because of such massive urban shifts as that which, in the case of Pittsburgh for example, reduced a city's population by over 200,000 in two and one-half decades.

In sum, the figure of 1.7 million new starts for 1979 becomes through adjustment a housing gain of only a million units in 1979. *And even this figure should not give comfort.* It does not allow for replacement or repair of the aging and deteriorating houses, some in continuous use since 1880 and earlier, that are a feature of such older cities as Philadelphia, Boston, Baltimore, St. Louis, New York and Buffalo. To informed persons the conclusion is inescapable: The United States, far from creating sufficient new housing to accommodate its modest population growth through the 1970s, was not even able to maintain the standard set for the population that existed at the beginning of the decade. This alarming fact has been concealed, but only partially concealed, by the continuing subdivision of existing units into smaller and smaller dwelling places and, as noted, by the growing ubiquity of the mobile home. And all of this occurs at a time when the rate of household formation in America is at its highest level in history.

Meantime, national statistics of the mid-'70s tell their grim story:

- 1.8 million housing units in America *still* lack plumbing facilities.
- 40 percent of available housing units are more than 30 years old, and repairs to older, custom-erected homes are beyond the economic

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capacities of many owners and tenants.

- Over seven million American families live in housing that does not meet basic standards in terms of space, heating, maintenance, security and environment.
- Six million low-income families are forced to pay more than one half their incomes for housing.

Moreover, 60 percent of substandard housing in the U.S. is located in rural areas. A special set of problems fosters this high level of substandard housing:

- *Severe poverty* (41 percent of the nation's poor live in rural areas).
- *Absence of basic facilities* (30,000 small communities lack water or waste disposal facilities).
- *Especial housing disabilities for minorities* (two of every three rural housing units occupied by blacks, Native Americans, Spanish-speaking Americans and migrant workers are substandard).

The meaning of these statistics for individuals will be noted in later chapters, but it is important at the outset to note that nobody, and no residential, or social, or governmental, or economic community or group altogether escapes the effect of the present housing situation. Thus,

- Young people, even those of "comfortable" origins, join the poor as victims in that new housing costs in "home" communities are more than they can afford and older housing is not available. As a result, generational interchange, difficult in any case, becomes even more strained, and young and old feel abandoned.
- Market statistics indicate that four-fifths of America's people cannot afford to buy new housing without some kind of subsidy.
- Many landlords cannot afford to maintain properties; many tenants cannot afford to pay the rents needed to provide owners with the small profit they require to say in business.

These unhappy situations have developed in *our* home communities, the holy places of *our* lives, the locus in which we are called to work out *our* mission of service to Christ. It is time, perhaps, to shed tears for Jerusalem.

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Chapter Two

Grinding the Face of the Poor

The Human Cost of Bad Performance in Housing

Over 30 years ago the United States Congress declared the housing policy of this country to be a "decent home in a suitable living environment for every American family" (Housing Act, 1949). The aspiration was noble, the performance ignoble. We did not, in fact, give housing a high priority.

In part the nation's failure to shelter its people has been caused by a change in the motivation and operation of the housing industry. Housing has always been built for profit in this country. Even in the case of federal housing, *somebody* has always profited—the architect, the contractor, the owners of properties condemned to make way for the new dwellings. Yet the secondary aim, always called the principal aim, of course, has ever been the tangible one, to provide a structure with roof, walls, ceilings and floors called a *house* or an *apartment* in which human beings could live in security and warmth. Now the situation is changing. We continue to erect dwelling places for immediate profit, of course. But the tangible, secondary aim, to provide dwelling places for single persons or families, now takes *third* place in the scale of operating values instead of second. In today's housing industry one seeks first the profit to be secured on land, design, construction, materials and sale, second the prospect of future capital gain, and only third, and as a byproduct, the service factor involved in sheltering people. Further, American industry and finance have become so interdependent that the once secure, year-in, year-out housing capital pool from which construction loans and mortgages were once made can and sometimes

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does, as in 1979, evaporate overnight as money flows toward the prospect of greater profit elsewhere. One can say, as a result, that the American housing industry has become a futures market, like that which trades in next year's grain or corn. And one can say that a house, a dwelling place, has become an instrument of exchange, like a bond or a dollar bill.

Last year, for example, Maryland's Montgomery County declared a moratorium on the conversion of apartment houses to condominiums. Montgomery County has one of the highest per capita income averages to be found in the nation; yet the county's officials discovered that hundreds of regularly employed people were homeless, actually in need, because of the operation of the futures market in housing we call the condominium. The process requires explanation.

Suppose one has a good income and a comfortable apartment. Rent seems high, but somehow gets paid. Then, one day, notice arrives in the mailbox that the owners desire to convert the apartment house into a condominium. The purpose: the huge capital gains to be obtained through sale and an escape from maintenance costs of operating a property for rental. The lure to tenants: the huge capital gains which, it is usually purported, tenants will also make if they buy their apartments from the owner and hold onto them for a few years. And now, indeed, everybody but the poor makes money. Not one high-interest mortgage is necessary but as many mortgages as apartments exist in the structure; not one set of transfer taxes must be paid but as many as there are units in the apartment house; not one lawyer must be employed but as many as the clients that live in the condominium-to-be. And if one does not choose to buy? Well then, get out. Get out, that is, because the subject of all this activity is not, in fact, the sale and purchase of housing at reasonable mark-ups but the sale and purchase of future opportunities to make a killing on the housing market. Meantime, if one does elect to buy, federal sources indicate that monthly costs of the apartment (including mortgage and maintenance) may rise by as much as 300 percent under condominium ownership.

So much (and no more for the moment), for the sorrows of the affluent of Montgomery County, Maryland, or Manhattan's East Side, or San Francisco's Telegraph Hill. Now consider what has been happening to the poor, those millions who are still there around South Street in Philadelphia, or resident in Chicago's Pilsen District, or dwelling in those

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red brick houses ten blocks from the river in St. Louis or ten blocks from City Hall in Philadelphia. Until recently one could find two advantages, at least, in their crumbling habitations: They were cheap and often rent-controlled. Now even these minimal advantages are being swept away.

The new process from which the urban poor are suffering, called displacement or "gentrification," begins also with the fallout from change in the industry operating pattern. Suburbia's children—and the children of affluent city dwellers—grow up, cannot afford the price tags and interest rates required to obtain a home in the Westchesters, Newton Centers, Lake Forests and "Center City Arms" of this world, and look elsewhere to live. Less enamoured than their parents with green lawns of suburbia or doorman-attended luxury apartments, their eyes fall upon the turn-of-the-century houses inhabited by Black, other minorities and the white poor. Repaired and redecorated, the young people observe, such homes will be pleasant and a good investment. And besides, transportation and taxes will be cheap.

Into the "redevelopment" or "rehabilitation" story at this point steps an old acquaintance. Though called by a different name this time, he or she is that familiar "blockbuster" who, two decades ago, was engaged in forcing whites out of the inner city to make way for blacks. Now, however, the blockbuster—his more modern cousin, the redeveloper, that is—forces the poor and minorities out in order to earn for himself or herself the profits to be made from those young affluent families. What's more, the city helps the redeveloper in his task in many ways, such as condemnation of properties, extension of credit and other enabling acts. And why not? Property values will go up and thereby increase the city's tax base, and doesn't every city executive dream of a downtown once again inhabited by prosperous people with an increased tax base? And so, in a hundred "Society Hill" redevelopments, the poor are shoved aside to make way for the affluent.

Alas, they are not only homes that are swept away by the wrecker's ball. With them go the ties of community—the small businesses, lodges, churches, clubs, burying societies that were so hard for a once disenfranchised and enslaved minority to develop and, once established, so treasured. Nor is there comfort in the thought that these people receive financial settlements. These institutions were born and developed in *this* neighborhood, among *that* collection of families and individuals, in re-

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sponse to challenges of particular needs and opportunities. Where are the ready-made communities to which they can be transplanted? Where indeed are the ready-made new communities; where do the poor go when, for and by the well-to-do, their neighborhoods are redeveloped?

They go into old houses, subdivided, in the next outer ring of the city and the next. The amount of floor space available at affordable rent shrinks with each move, with each new partitioning of each old parlor or bedroom, in a cycle that reduces breathing space, comfort, dignity and grace with all the quiet inexorability of a salami-slicing machine.

The suburban view presents a different dimension of the housing crisis. Post World War II suburban development, promoted as national policy by the Federal Housing Administration and the Veterans Administration, and financially assisted by federal/state aid for the development of water, sewer, roads and utility systems, has primarily benefited the middle-and upper-income groups by providing them with a housing escape from the central cities. The suburban lifestyle of the middle class is often protected by exclusionary zoning and the intentional abuse of government power at the local level (refusal to apply for federal programs which aid the poor; refusal to promote subsidized housing in the suburbs, etc.). These forces restrain the poor as urban hostages with very limited access to the quality education, employment and environmental opportunities that are directly available to suburban residents. They also perpetuate racial segregation and emphasize class distinctions.

During the 1970s, major central cities in the Northeast lost population but retained their poor residents. The resulting more intense concentration of the poor has exacerbated urban problems and made the need to provide regional housing opportunities for the poor even more critical. Viewed soberly, recent urban investment by the government has not helped the poor, and overconcentration of the poor in inner cities has nullified the impact of most federal and state programs. Rather than being catalytic actions which revitalize cities, the government programs have been reduced to a source of subsistence, the only means to balance inadequate local budgets. Urban housing programs, rather than providing a means to future economic stability and employment, have promoted racial and economic segregation, contributed to inflated urban real estate markets, and locked the poor into cities.

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Without regional housing opportunities for the poor, both the poor and the cities will continue to suffer. Racial segregation will be maintained; the urban-suburban dichotomy will magnify; and the urban poor will be displaced again into worse ghettos by the "gentrification" movement.

Thus far, the examples given have been urban or suburban. The same pattern—the demolition of the dwellings of the humble folk to meet the needs of those better-connected, better-established, better-fed and better-housed and better-paid, goes on in rural areas too. Outside Allentown, Pennsylvania, the 19th century homes and churches of laboring people in two-century-old villages are torn down to make room for a brewery and outlying managerial homes. In Brumley Gap, Virginia, an entire valley is scheduled for inundation to provide water power for electricity generation that will turn the driveshafts of factories in Gary and Detroit. In neither case is the value of destroyed community taken seriously, nor does anyone take the most elementary ethical responsibility for seeing that new homes are available.

The human cost of our housing debacle cannot be accurately measured. An old man, David Zlinkoff, gives a clue as he stands stooped in a doorway. Recently, the 72-year old began to spend too much of his social security for food and consequently has been thrown out of his furnished room for non-payment of rent. He has also repeatedly been beaten up and robbed by thugs, and finds himself denied sleep in the hallways of a Columbia University office building.

As Zlinkoff tells his story, he punctuates it with the self-effacing giggle of an old man driven "round the bend." Yet Zlinkoff is not unusual. One can find his like on court dockets where cases of domestic violence or divorce are heard; in schoolrooms rendered vacant or overwhelmingly crowded by population shifts; on benches of hospital receiving rooms, where cases of rat-bite, impetigo, and mysterious fevers are logged; in the ledgers of prothonotary offices where the slowly eroding tax base of older wards and boroughs is recorded.

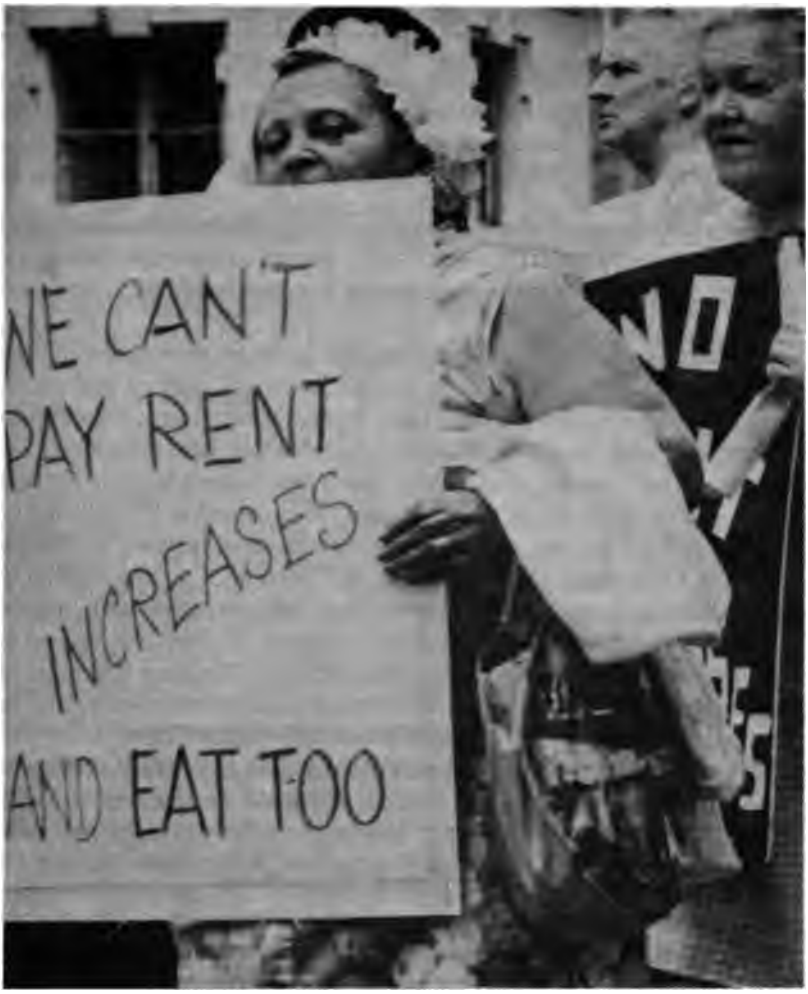
Meanwhile, one notices too a rising rage—measured in crime and emotional collapse in a population which, long-accustomed and content that banks, builders and owners should make a modest profit on their dwellings, now discovers that a house isn't a house anymore but only a chip in a game in which neither shelter nor regular income is a prize.

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Recently, the Federal government announced that it would create a new low-income housing project in South Philadelphia to shelter black families forced out through gentrification of a large inner-city area. Immediately homeowners of the area protested, "We'll lose our chance at capital gains on our houses," and "What can leave to our children?" The disease of exorbitant profit-taking, it is clear as one looks at exceedingly modest South Philadelphia row homes, is not restricted to one level of society. Yet few Christians would doubt that the illness is especially prevalent among those who are most comfortable. To such the Lord God of hosts, who knows about the fragility of communities and nations has said:

"What do you mean by crushing my people?
Why do you grind the face of the poor?" (Isaiah 3:15)

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Chapter Three
Justice Abhorred, Equity Perverted (Micah 3:9)

Inadequate Governmental Performance Outlined

A myth has hampered all efforts to deal with problems of housing for low-income people. What is the myth?—that the nation has spent billions and billions on shelter for low-income people and cannot afford to spend any more.

Billions have indeed been spent from tax revenues for housing, but not for the poor. The National Low Income Housing Coalition laid out the real facts of the matter in 1980. Using Treasury Department estimates for tax expenditures, the Coalition determined that this year (fiscal 1981) $4.2 billion, or 14.1 percent of all federal direct and indirect housing expenditures, will go to aid people with household incomes below $5,000 and $4.5 billion, or 14.7 percent, will aid those with incomes between $5,000 and $20,000. Conversely, $13.8 billion, or 46.7 percent of all assisted and indirect housing expenditures of government, will aid people with incomes between $20,000 and $50,000, and $7.3 billion or 24.5 percent, will aid individuals with household incomes above $50,000. The latter statement, as will be realized, treats the standard mortgage interest deduction against income tax as an indirect governmental housing "expenditure."

Two aspects of the incongruity revealed by the U.S. Treasury Department figures turned up by the Housing Coalition require some effort to digest:

First, the Human Toll of Low Federal Expenditures:

Most low-income people are renters, not homeowners. The national stock of low-rental housing available to them is shrinking, not expanding, at a time when formation of new households (the coming to maternity and

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paternity of the fifties and sixties children) is about to hit new highs. Thus, in 1970, for 7,584,000 households with incomes of $4,000 or less, there were 7,516,000 low-rent units in existence. Seven years later in 1977, 5,815,000 households had incomes of $4,000 but only 2,052,000 low-rent units were available to them. Such persons are forced to rent homes they cannot afford—and as a result, in 1978, 6.1 million householders—up 60 percent since 1976—were paying *over half* their incomes for shelter alone, a situation which, informed sources indicate, has continued to deteriorate since.

For most poor people the need for shelter is the mother of other extremities to which they are driven. The retired person on social security minimums, the unemployed, hand over their incomes to rooming house operators and tenement owners, enduring crowding, poor sanitation, and bad or in some cases, nonexistent lighting (the electric bill doesn't get paid), eating or not eating depending upon what's left to spend at the high-price convenience store that is the only merchandising presence within reach. Meantime landlords, faced with high costs of repair, ignore the leaking roof, the leaking faucet, the leaking commode. The city government, to which tenants might appeal, has often solved its own financial problems by dismissing the housing inspectors or home visitors who might have issued citations for housing violations. And in any case the code enforcement process can be so protracted as to make it almost useless.

Second, Governments Go Along with the Myth:

Most federal money is spent on defense, highways, promotion of trade, education, and so on. The poor are not so well organized to defend their resources as more prosperous special interest groups are. Therefore, the cry against soaring taxes, year after year, has combined with widespread public misinformation on the size of the federal low-income housing expenditure to guarantee that the little that is given becomes less.

Meanwhile, over the years, the path which federal sums allocated for low-income housing must travel to actually result in a new roof, a new apartment, has changed and become more complicated.

In early years of federal housing activity, the government, when a need for new housing had been determined and funds had been allocated, insured housing for middle-income people and reached out and actually constructed dwellings for the poor, almost always in conjunction with local

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housing authorities. Many such structures—the huge federal housing projects of yore—were ugly, engineered with little thought for aesthetics and social dynamics, and located with little regard for convenience and social integration. Since many communities permitted public housing only in poor locations which forced overcrowding, many of these structures stand empty now, or are in advanced states of deterioration. Even so, they filled a need, and in a hurry, in the immediate post World War II era. In areas where public housing was developed on a scatter-site, low-rise basis and took into consideration the needs of its future residents, it was and still is an important resource for the poor.

But, if public housing began with the premise that low-income housing should be constructed and operated by public bodies, a change soon took place. During the 1950s, non-profit and limited dividend corporations were included in government-assisted housing programs, and today's Section 8 federal programs, heavily promoted since the '70s, are based on the premise that private enterprise, operating for profit, should be the chief planner, provider and manager of assisted housing, though public and non-profit organizations may participate.

A National Low Income Housing Coalition report tells what has happened as a result of the emphasis on private enterprise:

> The assumption that the private market is a better and more effective governor of low-cost housing production and management than is government and that competition would lead to efficiency and hold down costs, [the assumption] that a variety of approaches would be possible, . . . [the assumption] that opposition to private development would be less intense and owners less vulnerable to political opposition . . . *these assumptions have not, in fact, proved correct.*
>
> Private operators perceived low-income housing as risky. If a development was viable both with and without subsidy, developers chose the unsubsidized route. Thus, the initial hope of integrating Section 8 units (i.e., low-income units, privately built but federally aided) in predominantly unsubsidized developments proved a vain one. Also, with few exceptions, private operators have no experience in managing housing for low-income people, and no financial incentive to operate it in a manner that ensures that tenants with greatest needs are selected first. . . . Prohibitions against such discrimination in assisted housing lead developers to prefer unassisted housing, or, if they are building [federally assisted structures], doing it for elderly people.

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Only a little translation is necessary to understand the report: It is clear that if adherence to federal standards in construction of rental housing is to be required, if low-cost federally aided housing is truly to be used for the poor persons for which it is intended, then most private builders have chosen not to play the low-income game at all except in the case of construction for the benefit of aged persons whose rentals, in effect, are federally guaranteed under the social security system. And, in community after community, available federal money in aid of housing is being ignored or scorned, and hoped-for housing left unbuilt, out of distaste for federal nondiscriminatory standards and the difficulty encountered in managing projects for low-income people.

On the other hand, *public housing authorities and boards* sometimes have won for themselves a bad image, as everybody knows. Quasi-autonomous, responsive neither to electorate nor tenants, the authorities have spawned red tape and the residential insecurity that arises from too desultory an approach to tenant safety. Through the sixties, non-profit housing corporations began to be developed as an alternative. Some of these were established by private or public agencies, and some lodges and churches, including some Presbyterian churches, organized housing corporations under this emphasis. Less frequently, groups within low-income communities were organized to build houses, assisted through poverty programs or the Model Cities programs. These non-profit groups, displaying varying degrees of paternalism and expertise, have at least possessed the advantages of good will to the poor and commitment to their welfare. They do need technical advice, however, and it is fair to say that their record of accomplishment has not been outstanding.

With the outcry over the myth that excessive funds have been spent for low-income housing, and at least in part because of the national inability to find a sure and certain way to tackle the low-income housing job successfully, the federal government has increasingly taken a passive role in dealing with such construction. It provides resources in the form of subsidies, sets ground rules, and waits to see what local groups, especially local governments, will do. These local governmental bodies, which make the basic decisions about who will live within their jurisdictions, have seldom fully exploited the resources the federal government has to offer. As a result, in community after community, limited housing construction and

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growth have had the effect of rationing housing, thereby driving rental and purchase prices up.

Increasingly, therefore, it becomes clear that the local government body holds the key to housing development almost everywhere. Though federal campaigns may come and go, though national political figures may pile promises upon promises regarding housing, no disposition is evident anywhere in the United States to reverse the emphasis that has left to state and local governments the power of deciding where and when federal funds are to be employed. The much sought-after "friend in Washington" who once unlocked funds for local development remains today of importance as a source from which to learn what funds are available and for what purpose, but the decision to tap such funds or to exploit additional federal resources for counseling and planning in housing is almost always taken by local governing bodies. This emphasis, though opening the way to the blunting of national legislative intentions by local prejudice and limitations of local vision, also makes it possible for local Christian citizens to deal on housing matters in their own communities with officials whose political futures are bound up in local voting patterns and who are vulnerable to the displeasure of those who care about housing for the poor.

In addition to the decision-making power over the construction of federally subsidized housing for low-income persons, local governments also have the responsibility to insure the maintenance of the existing stock of housing which houses or could house the poor. Supportive human services programs, such as day care, job training, education, etc., are all administered at the local community level.

Therefore today. one goes to the same local people, the same local boards, to urge construction of new housing; to urge enforcement of local property codes and health standards for existing housing; and to urge the development of social service programs to assist low-income residents of both new and existing housing. The field is wide open for community presence and participation to insure that local government addresses the housing and social service needs of the poor in a positive fashion. Without local citizen involvement and pressure, local governments will continue to act in the area of housing in negative ways by passage of exclusionary zoning regulations, by the inequitable taxation of property, and by the rejection of proposals that respond to the housing needs of the poor.

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Chapter Four
Because Once We Were No People

The Church's Reasons, Now and in History, for Interesting Itself in Housing

Members and congregations of the United Presbyterian Church are taking an increasing interest in the housing crisis, and for good reasons. They are motivated by tradition, situation and a theology which is concerned with compassion and justice.

Historical Involvement

Puritan, Reformed and Presbyterian entrepreneurs played a leading role in the actual construction and sale of dwellings in early American villages, towns and cities, as befitted members of a community which held a strong position in the commercial life in this country from its beginnings. In addition, *congregations* of such folk left their mark in the early establishment of building and loan societies, credit unions, insurance organizations and various other groups that later became part of the capital pool from which the housing industry in America has developed.

More recently, in the sixties and seventies, United Presbyterians have helped to establish financial instititutions to serve minority communities in California, New York, Pennsylvania, St. Louis and elsewhere. Such assistance has aimed at making mortgage and development capital available to Black and other minority families for use in mortgages and similar loans. The former Board of National Misions, the National Committee on the Self-Development of People, the Program Agency, and a number of presbyteries and synods have been sources for these grants.

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Situational Involvement

The situational involvement of United Presbyterians as individuals and as a church in the current housing crisis arises from our strange position as both victim and cause, indeed sometimes profiteer, in the dismal housing situation.

Most of us are not so well-to-do as to undergo the present inflationary spiral without difficulty. We suffer from rising taxes, high interest rates, soaring maintenance costs and all the hundred-odd subliminal and financial pressures that go with owning a home, or trying to own one.

We are victims, too, of the break-up of our communities that is involved in the incapacity of children to buy houses in their own home areas. We are among the taxpayers who must build new schools when population shifts rapidly, and we are the people who must fire or transfer teachers when old schools turn up empty on the day after Labor Day. United Presbyterians, typically, are among the burden-bearers of society, at least in terms of tax burden, and we complain about our role, though we are proud to find ourselves, somehow, still able for the most part to pay for what is necessary. Yet, if we are victims, even more are we among those who profit—and usually at the expense of the poor.

Amost every one of us receives a government subsidy to support us in the buying of our homes. That subsidy we call a tax "deduction," and for Presbyterians alone the size of it may amount to two billion dollars annually that is lost to the federal treasury for other uses, including housing for the poor, because it has been given to us. Moreover, clergy have a special subsidy. The total cost of clergy housing is exempted from personal income and is, therefore, not taxed.

Our *attempts*, in conjunction with those of our neighbors, to preserve and improve our surroundings, and increasingly our efforts to protect eventual capital gain on our habitations, have surrounded our homes with zoning regulations, lines on paper as effective as steel barriers, that are designed to deny access to our communities by low-income families. Our *complaints* about our tax burdens, when combined with the desire of elected representatives to take the easy way out, have resulted in a decline in federal, state, and city appropriations for housing and, indeed, for all other services designed to assist disadvantaged sections of our population. Our *silence* has made us profiteers from red-lining business and lending

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practices that continue to deny mortgage money, home improvement loans and insurance to homebuyers and homeowners in disadvantaged sections of the nation's cities.

Alas, many of the United Presbyterians who are leaders in society and the church have by silence or voice been part of recurrent campaigns that keep low-income persons and minorities out of our communities, that deny to the handicapped the right to establish group homes in our localities, that insist that slow learners be housed and schooled away from our schools, our homes.

Protecting ourselves, we have done violence to fellow citizens who do not share our advantages. There is no way to soften the statement; like the taxes we complain of, the fact of our violence to persons is real, it is true and it hurts.

Theological Dynamics

Even if United Presbyterians possessed no experience in housing matters, and no involvement for both good and ill in present housing difficulties, it is all but certain that in these days of biblical renewal a loud and clear Presbyterian voice would be raised in protest against the prevailing housing situation and to suggest ways to improve matters. That certainty stems from our theology and understanding of Gospel imperatives.

God, we believe, has made a promise, still unfulfilled, to his people. By this covenant we are to expect a forthcoming "golden age" in which all the children of God will enjoy pleasant, peaceful and secure lives, each under his or her "own vine and fig tree," and "none shall make them afraid." On the wonderful day of the promise, men, women and children of all income levels will be *at home* with each other and with God, "every tear" of insecurity and pain will be wiped away and there will be no more grief over rat-bites, leaking roofs, cold rooms and eviction orders. "Death and fear shall have no dominion," theologian Edward Huenemann reminds us, adding that "the housing of human beings in security and comfort is surely an important element in the essentially *religious* vision and process by which we all hope to become fully human" in the outworking of the covenant promises.

In the life and ethic held forward in the Old and New Testament Scriptures for the servant people of God, even the covenants, the promises of the

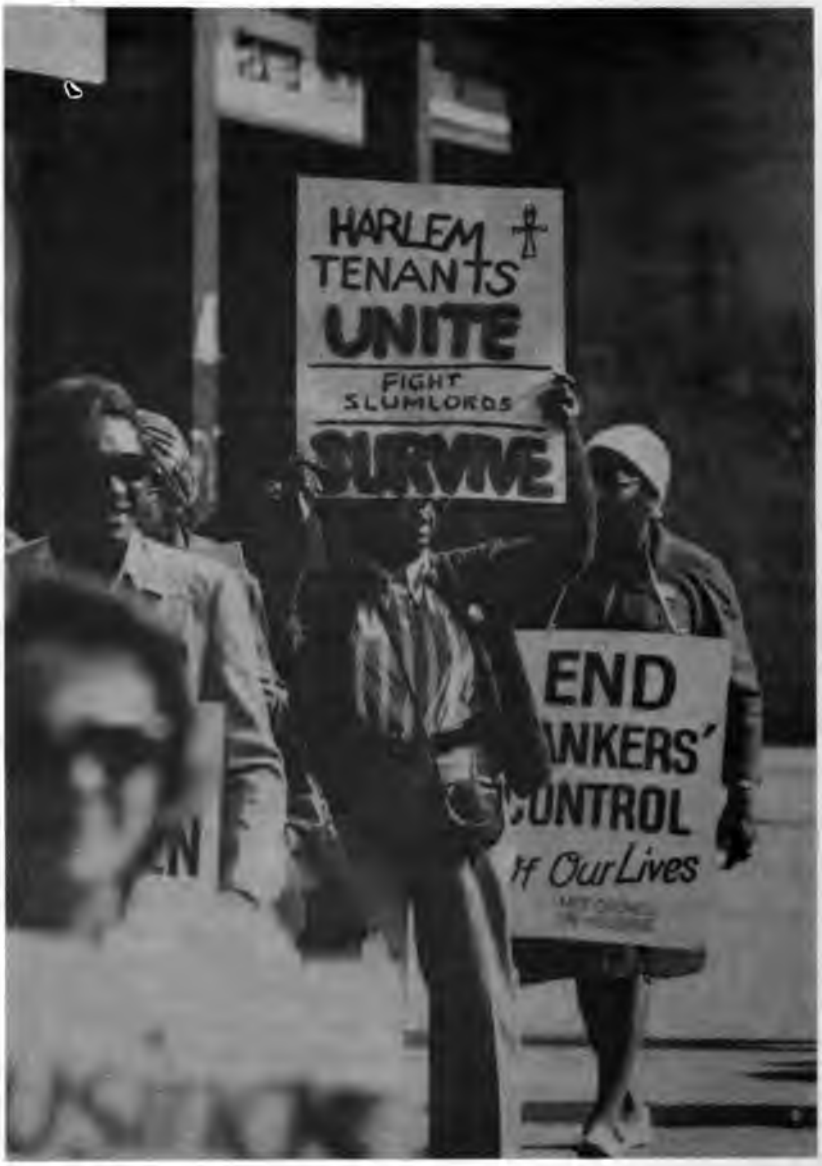
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Almighty, require human response. In this connection, the average United Presbyterian does well in his or her comfort, to recall the institution of the Passover feast: down the long centuries following the escape from Egypt, the people obeyed the Lord in annual remembrance not only of the Lord's delivering power and of their own act (cf: Hebrews 11:28) of obedience, but of their original condition (Deuteronomy 16:3, I Peter 2:10): "Once you were no people but now you are God's people; once you had not received mercy but now you have received mercy." Just so the fathers and mothers of all of us were once homeless slaves eating the "bread of affliction"; just so we have received great mercies; just so we keep a Passover that recalls an even mightier act of deliverance than the passing of the angel over the huts of the children of Israel; just so we are asked to make a response: "If you love me, feed my sheep." For us true faith ever and always must be this, to visit those who are afflicted (James 1:27), to serve the Lord and keep his commandments (John 13:34; Deuteronomy 10:12-13) and to love the homeless "for [we] were sojourners in the land of Egypt" (Deuteronomy 10:19). Always we are to remember our own one-time homelessness: to remember and to act.

Another element in the theological traditions of the church and in the teaching of Scripture has ever accented the accountability of all persons and all powers. Though the civil magistrate—that is, the government—is for Christians to be honored as a matter of obedience derived from belief in the magistrate's ultimate investiture by God, and though by Christian teaching labor, whether that of a president of industry or a carpenter, is held to be worthy of adequate, indeed abundant hire, yet believers are not to be passive in times of abuse by either state or industry. Indeed, we have always been under orders to engage in dialogue from faith with the powers of the world.

In addition, Christian understandings of property ownership have always insisted that property is held in stewardship to God, that "the Earth is the Lord's and the fulness thereof," and is to be used for His purposes. We are trustees of God's creation and are required to exercise that trust for the common good. Presbyterians who have traditionally recognized the right to private property have also recognized that that right is subject to limitations. God intended the earth for the use of every human being and people; whatever the form of ownership, God's universal purpose for His

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creation must be respected. Every Christian and every church should regard their possessions not merely as their own, but as a trust that should benefit not only themselves, but others.

Against such a background, it is sobering to look out as individuals to the tension between present realities and what God has told us He intends. Our housing patterns, clearly, are shaped largely on the basis of economic disparities and racial attitudes. People, beings in the image of God with an eternal destiny, are labelled "consumers," and treated with a casualness appropriate to the porcine term. Housing, which we understand minimally to be shelter against the elements and predators, nonetheless is an activity that ever bears the imprint of human creativity and spirituality; moreover, a house is to bear upon its gates the promise of fulfillment of God's promises (Deuteronomy 11:20). Yet, we see human habitations treated like pawns in a game that has little to do with comfort for infants, or with the arena in which familial love is given expression, or with the basic unit of the community.

Instead, the present scene discloses the idea of a house corrupted to the purposes of exploitation, the value of community ignored, and a vast army of Christians standing at ease behind zoning barriers in presumptive acceptance of injustice *at the same time* that their churches resound with calls to a life of sharing in the example of Jesus Christ. Obviously, such hypocrisy cannot long endure. Late or soon we must confess that we have benefitted from a Passover that is, in all the blessings that stem from it, collective by God's intention and by His holy nature which is just.

The General Assembly has again and again—19 times between 1947 and 1978—spoken of state, community and Christian responsibilities in the area of housing. In 1947, the 159th Assembly (*Journal*, page 196) emphasized to the church that Presbyterians "cannot afford to pay the spiritual cost of ignoring [housing], a basic need of family life" and said that good Christians "should do something about this" and that "good citizens must." A year later in 1948, the 160th General Assembly called the then-existing housing shortage a "most shameful violation of common decency" and a "flagrant dereliction" of the "social duty" of the citizenry (*Journal*, page 208).

In subsequent years, specific duties and obligations of the church in the field of housing were urged, beginning with the exhortation of the 161st

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General Assembly (1949) that "our churches in cooperation with other community agencies, conduct surveys of housing conditions in their own communities and initiate whatever steps may be necessary to stimulate private industry to develop housing for families of lower middle income, and encourage local government authorities to proceed with . . . a public housing program for low-income families" (*Journal*, page 248).

In the years that followed, the church attacked racial discrimination in public and private housing, urged extension of public housing efforts into rural areas, pressed for liberalization of mortgage-lending standards. Not then expressed, but growing, was the conviction to which we now are come: *That decent housing is a basic right for everybody.*

From the outer gate now comes a call (Luke 16:20). It is Lazarus with his rat-bites and chilblains, and we are within, in comfort at the table. Can it be that we we will hear Lazarus? Can it be that we will hear him *here*, in this life and this day, short of the unbridgeable chasm that the story tells us will otherwise await us in the judgment? One thing is sure: The Lord God hears Lazarus, just as He has *always* heard the cries of the deprived, the suffering, the tormented. In the matter of housing and maintenance of housing standards, we all stand today in the position of Moses on the mountain (Exodus 3:7), listening to our Creator's voice:

> "I have seen the affliction of my people . . .
> Come, I will send *you*."

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Chapter Five
Rediscovering the Law in the Temple
The Church's Role in Housing

When the Christian constituency hears the call of God to action in housing and community building, the result should be immensely creative for this nation. It should inspire the growth of a sense in the people of having returned to the old dream of America's founders, the establishment of a land in which men and women may together seek "life, liberty and the pursuit of happiness" in a social and residential climate that reflects and fosters human relatedness through the expression of humanitarian values and the old-fashioned neighborliness that knows no creedal or sectarian definitions.

But how can such a rebirth of conscience, of collective "soul," take place?

There is in the second book of Chronicles (34: 8-19) an account of the rediscovery during repair of the Jerusalem Temple of certain "lost" books of the Mosaic law. Hearing them read, King Josiah "rent his clothing" and wept. Some similar response is hoped for in the matter of fair share housing.

The "lost" New Testament "law" of equity—that one should deal with one's neighbor as with oneself—is also being rediscovered. And when, person by person, the rediscovery is made and applied to such problems of community well-being as housing, a first effect is the blowing away of falsehood. Take the falsehood, for example, that only the poor receive government largesse in housing.

The most pervasive entitlement in housing is not provided by federal

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housing programs but through the federal income tax system: If you make enough money to put together a down payment and can afford a mortgage, homeowner and investor deductions in your income tax emphasize your right to have a good house rather than hand your money over to the government. Moreover, the higher your income the more "right" to housing you have.

It is surely a bitter thing to observe the beneficiaries of such largesse running around *resisting* the federal, state and local programs that might afford a decent roof for somebody else, but such is the case. In other social services—use of public highways, public education, etc.—the nation has had a vision of benefit and entitlement for *all* of its people, but in the elemental matter of who shall be sheltered adequately and in decency the vision has failed.

A people who believe in a loving God, a just God, will indeed, remembering the Lazarus story, ask what the Creator will have in store for a people who visit hardship upon those who can least endure. Such a people, observing the aged carrying their powdered milk and cans of tuna up the steps to ill-lit hallways and into poorly heated, cumbling apartments, must ponder the anger of God; such a people, observing a national policy that everywhere crams the desperate in beside the desperate in the worst possible housing conditions, must ponder the reaction of the living God of love and peace.

Why has decent housing not yet been recognized as a basic human right by everyone in America?

It is clear from what has been written that housing no longer holds the priority it once had in our plan of things to do and works to accomplish.

It is clear that the ability of the poor to utilize such housing opportunities as do exist has eroded under inflation, rising interest patterns, poor enforcement of housing standards, restrictive zoning laws and changes in housing industry priorities.

It is clear that housing as a human right in America depends upon human might—that we recognize housing as the right only of those powerful and rich enough to kick up a storm if denied.

It is clear that in matters of housing we are far from being a moral people, far from being a just people, far from being a democratic people, far from being a Christian people. So what is to be done? Perhaps the image of the Passover people will serve us once we understand it; perhaps the sense

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that humankind is in motion will help; perhaps we must all begin to consider the refugees of today's earth as those who experience—and endure—a Passion experience.

Today, the world is filled with refugees, refugees who have been forced from their homes to seek shelter and community in strange and often dangerous places where housing is not only inadequate but often merely makeshift. Most major cities in Africa, Latin America and Asia are ringed with extensive squatter settlements where entire families live in hastily erected shelters in areas with no electricity or plumbing and only paths for roads.

In addition, the ravages of war and racial and ethnic hostility have generated a flow of refugees from Uganda, Cambodia, Afghanistran, Viet Nam and many other countries which is beyond conception. Millions of people have been uprooted from their homes and their homelands and forced to seek whatever shelter and havens they could find. The specter of the "boat people" who floated for weeks and months at sea, in overcrowded, unsafe boats, because they could not find a country that would accept them, is a haunting memory. Thousands and possibly hundreds of thousands have died in this basic quest for a home.

In our country, too, there are many who can be called refugees, for whom the quest for a decent place to live is a lifelong struggle. There is a sense in which this is a struggle which touches most Americans. But for those of low and moderate income, the struggle is most critical and the prospects most dismal. They are forced from their homes by "redevelopment" or "urban renewal" instead of by war. They are often unable to find a safe and decent settling place because communities zone them out or real estate agents steer them away because of their color or ethnic heritage. Like the "boat people," no one wants these American urban dwellers, and they must somehow squeeze themselves and their children into already overcrowded, deteriorating and dangerous neighborhoods that have been abandoned by the banks and businesses, certain as they do so that it is only a matter of time before they will be forced to move again.

The situation is not only unjust; it is explosive. At a time when there is a growing emphasis among church people on "peacemaking," the ever-restricted access of the poor and minorities to decent housing dramatically increases the potential for violence and conflict on our streets and in our homes.

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What then can the General Assembly do? What can the synod do? The presbytery? The congregation? The believer in the pew?

One starts, of course, by noting that the church cannot do everything. Housing is a complex issue, a professional problem, a matter for associations and alliances and a joint effort.

Yet, the admission that Christians cannot do *everything* is far from an excuse for doing *nothing*.

As we've seen, the time is here, the time is now, for the church to lift its voice as one of the moral monitors of the state and society on behalf of fair, good and decent housing for all as a matter of right. And more than a voice must be lifted: The church's energies, resources, power, must be brought to the side of the ill-housed in America as it has in the past been brought to the side of the ill-fed and disenfranchised. *They are the same people*: the people whom we have sought to serve in areas of self-development, interchurch aid, hunger action, and other kinds of advocacy are the people who look out at us from windows of deteriorating houses, ill-maintained apartments and furnished rooms.

Just as we have discovered in other varieties of mission that the most effective help is that which empowers those in need to tackle their own problems, so informed persons in the area of housing have insisted the "the *first* requisite of an adequate housing strategy is to get control of housing stock into the hands of its occupants." This does not necessarily mean home or apartment ownership for everyone. The aim could be accomplished, in part, through community or neighborhood-based housing corporations and through provision for genuine tenant participation in housing management. But it is important to establish the underlying principal in whatever pressures the church may choose to exert: We do not seek greater and greater housing projects *operated* by local, state or federal authorities; we seek housing for the poor at fair prices under operational schemes that invest the poor *with dignity and control,* if not always and everywhere with proprietorship itself. Whatever the church says or does, let that principal be affirmed.

Despite all that has been said, the church being preoccupied with other matters may fail to effectively take up its mission in housing. By failing to respond the church would, by its silence, be siding with those in our society who are willing to treat the poor as though they were sin-bearers for the rest

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of us, leaving them to their rotting habitations as the rest of us enjoy our "right" to good homes. Such a prospect makes us recall that there was once "a rich man, who was clothed in fine purple and linen and who feasted sumptuously every day. And at his gate lay a poor man named Lazarus."

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A Call to Renewed Ministries in Housing

Enacted by 193rd General Assembly (1981)

In response to the critical housing needs in the United States and with the intention of strengthening United Presbyterian housing ministries, the Program Agency established in November of 1979 an ad hoc advisory committee on housing, chaired by the Reverend Lincoln Dring of Rockville, Maryland. As part of its work, the committee prepared a report, for study by the church, entitled "Lazarus at the Gate," which discusses background data on housing needs, a theological framework for housing ministries and suggestions for church action.

Housing Needs of Low- and Moderate-Income Persons

As that report points out, there is a growing shortage in the United States of decent, affordable housing for low- and moderate-income people, with the stock of rented housing upon which most poor people depend actually shrinking at a time of expanding demand. Whereas, in 1970, for 7,584,000 households with incomes of $4,000 or less there were 7,516,000 low-rent units in existence, seven years later in 1977, 5,815,000 households had incomes of $4,000 or less, but only 2,052,000 low-rent units were available to them. The number of people paying more than half their income for shelter jumped from 3.8 million renters in 1976 to 6.1 million renters in 1978.

Millions of people in the United States live in run-down buildings, vulnerable to deadly fires, plagued by rats, suffering from inadequate or no heat and hot water, with little in the way of security against robbery or personal attacks. The elderly and disabled poor in urban areas often live in cramped, depressing and dangerous single-room-occupancy "hotels" that

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cater to "transients" but where transients may stay for years at a time because alternative housing is not available.

The problem of urban housing is well known, but the amount of substandard housing in rural areas of the United States is sometimes overlooked. Sixty percent of the substandard housing in the U.S. is in rural areas. Many rural communities (some 30,000) still lack water or waste disposal facilities. The housing of migrant farm workers and Native Americans remains deplorable in many areas.

Housing available to the poor has been reduced in several ways. Sizeable areas of older cities where low- and moderate-income people live have been allowed to deteriorate in part because banks and insurance companies have "red-lined" those areas, refusing to make needed mortgage, business or home improvement loans or provide adequate insurance coverage. Additionally, landlords have often collected rents without making needed repairs and when the costs of essential repairs become too great, they abandon the buildings. Large numbers of these buildings are destroyed by suspicious fires and tenants are forced from their homes.

Other inner-city areas are being redeveloped for occupancy by persons of high income with the result that thousands of low- and moderate-income people are being displaced from their neighborhoods. Discriminatory practices in the buying and selling of housing, plus exclusionary zoning ordinances and building codes continue to limit access of the poor and minorities to decent housing in urban and suburban areas. In some rural areas, it is difficult to obtain land for new housing for low-income people.

The worsening shortage of decent and affordable housing available to individuals and families of low and moderate income is causing great human suffering and disrupting thousands of lives.

Government Housing Policies and Programs

It is clear from the experience of the last three decades that government policies and subsidies are essential ingredients in addressing the housing dilemmas and low- and moderate-income persons. This applies to state and local governments, as well as to the federal government. The federal government exerts influence on the housing market and housing for the poor through a variety of means including general economic policies, taxation policies, and housing subsidies.

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The largest aggregate of federal housing subsidies is granted indirectly through income tax deductions. The principal deduction is for interest on mortgages which can be claimed as an entitlement by all homeowners. In 1980, of all federal housing subsidies, both direct and indirect, it is estimated (by the National Low-Income Housing Coalition) that this year (fiscal 1981) $4.2 billion or 14.1 percent of all federal direct and indirect housing expenditures will go to aid people with household incomes below $5,000 and $4.5 billion or 14.7 percent will aid those with income between $5,000, and $20,000. Conversely, $13.8 billion or 45.7 percent of all assisted and indirect housing expenditures of government will aid people with incomes between $20,000 and $50,000, and $7.3 billion or 25.5 percent will aid individuals with household incomes above $50,000.

State and local governments have played an increasingly important role in the provision of housing. Local governments have for some time exercised control over housing development in their areas of jurisdiction through zoning and building codes and the provision of basic services such as water and sewer lines, schools and recreational facilities. These local controls have not infrequently been used to exclude low-income persons and minorities from middle- and upper-income, predominantly white areas.

Since 1974, local governments have been given increased control over the use of direct federal housing subsidies. In some cases, this has provided a mechanism for significant community input and creative planning for neighborhood development in areas of particular need; in other cases, funds intended to be used to aid low- and moderate-income persons have been used to meet budget deficits or to support recreation or beautification projects without effective consultation with the poor.

It is clear that those concerned about promoting decent housing for all must give greater attention to monitoring the activities of state and local decision makers.

Self-Help Activities

One of the most promising developments in recent years has been the increased efforts of low-income persons to buy and renovate abandoned buildings. They have been able to purchase buildings through the investment of their labor (known as "sweat equity") and to carry out renovations with the aid of government subsidies. Neighborhood groups have

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also become active to foster economic development, new construction and general neighborhood stabilization. These efforts require commitment, tenacity and creativity by community people and in turn generate greater control over their own neighborhoods and a stake in the future.

The Challenge to the Churches

This situation demands a sympathetic and active response from the church. In Jesus Christ, we are called to a life responsibility for the welfare of our brothers and sisters. In housing, the church is called to witness to this vision of the human community, to see that all people have adequate shelter and that housing patterns foster human relatedness rather than division.

The General Assembly has acted repeatedly to affirm the role of the church in working for decent housing for all:

- In 1947, the 159th General Assembly (*Minutes,* 1941, Part I, page 196) emphasized to the church that Presbyterians "cannot afford to pay the spiritual cost of ignoring [housing], a basic need of family life."
- In 1948, the 160th General Assembly again called attention to the housing shortage and called it a "shameful violation of common decency" (*Minutes,* 1948, Part I, page 208).
- In 1949, the 161st General Assembly suggested that "our churches in cooperation with other agencies conduct surveys of housing conditions in their own communities and initiate whatever steps may be necessary to stimulate private industry to develop housing for families of lower middle income, and encourage local government authorities to proceed with a public housing program for low-income families" (*Minutes,* 1949, Part I, page 248).
- In 1966, the 178th General Assembly called upon "congregations and the housing industry to examine both conscience and conduct, and to encourage residential integration by taking initiative in stabilizing neighborhoods into which non-whites and other ethnic groups are moving, and in encouraging others to do likewise," and encouraged sessions, presbyteries and synods to initiate "the construction of housing for middle-income families outside ghetto areas," as a means of accelerating housing integration, and also affirmed the

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responsibility of the church "to take the leadership in seeking the means whereby every American family can obtain a decent home," and went on to support "the establishment of national programs of housing subsidies" and other initiatives by government and the private sector, and urged "that housing programs be carried on in concert with programs aimed at environmental improvement and human renewal" (*Minutes,* 1966, Part I, page 383, 388).

- In 1977, the 189th General Assembly reminded "United Presbyterians that the nation suffers from serious problems in the area of housing" (*Minutes,* 1977, Part I, page 124).

The United Presbyterian Church has for many years engaged in a variety of housing ministries, including: fighting against discrimination in housing; advocating subsidized housing for low-income people; sponsoring non-profit housing for the elderly and for low- and middle-income families; working with tenants in public housing and in deteriorating privately-owned apartment buildings; providing counseling and referral services to individuals with housing problems; supporting community groups who are rehabilitating existing buildings and sponsoring new buildings, and supporting the construction of new housing in squatter settlement areas in other parts of the world.

Today, the challenge to the church to work for decent housing for all is as great, if not greater, than it has ever been. With the growing economic crisis and a growing conservatism in the country, the sentiment may be developing that the poor should fend for themselves and that the government should not pursue the goal stated in the National Housing Act of 1949, of "a decent home and a suitable living environment for every American family." The church cannot accept such a retreat and must press for the government to be an instrument to enhance the common good and to see that all Americans are adequately housed. It must reaffirm that in this country we are more than a collection of individuals, that we are part of God's human community and must share each others' burdens. The church cannot accept a retreat from the principles of justice and equity upon which our country was founded. The challenge is to give new life to this vision and to press on towards the goal of decent housing for all.

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Therefore, the 193rd General Assembly (1981)

- *Receives the background paper, "Lazarus at the Gate," and commends it to the church for study;*
- *Adopts the report "A Call to Renewed Ministries in Housing," and the following recommendations:*

With Regard to Housing Needs:

- Strongly affirms that *decent housing must be a right for all people* and reaffirms the goal stated in the National Housing Act of 1949, of "a decent home and a suitable living environment for every American family." We urge a long-range determination and commitment on the part of government, business and the voluntary sector to make that right become a reality.
- Expresses outrage and shame at the terrible housing conditions under which millions of people in the United States and around the world are forced to live and denounces the apathy, whether in ourselves or in others, which allows these conditions to remain.
- Recognizes that substandard housing is only one of the conditions of poverty and that an attack on this problem goes hand in hand with an attack on other key problems such as unemployment and inadequate educational opportunities.

With Regard to the Role of Government:

- Reaffirms that government at all levels must act creatively and forcefully to insure an adequate supply of housing for low-income families and individuals and to break down discriminatory barriers which deny the poor and minorities access to decent housing.
- Calls upon the federal government to increase the priority for subsidized housing to realize the Congressionally approved (1968) goal of a minimum of 600,000 units annually of new or substantially rehabilitated housing for low- and moderate-income people.
- Recognizes that under the present federal administration there will be a radical increase in the distribution of housing funds to state and local government through means of block grants. This will give increased responsibility for the management of these funds to state and local governments which in the past have had a poor record in using such funds for the benefit of those most in need. This situation pre-

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sents a special and urgent challenge to concerned Christians, along with other concerned citizens, to act as advocates for the use of these funds to meet the housing problems of the most needy.

- Urges special regard for the profound upheaval and pain that displacement inequitably causes for low-income and elderly persons and for the human significance of existing communities and their institutions, while recognizing the legitimate need for rehabilitation of deteriorating neighborhoods.
- Supports the concept of achieving equal opportunity in housing for low-income persons, middle- and upper-income persons, and urges the continuation of government programs which support this end.

With Regard to the Role of the Private Sector:

- Calls upon the private business sector to assume responsibility for creating decent housing for the poor and protecting people from being forceably displaced from their homes and their neighborhoods.
- Calls upon banks and insurance companies to make a conscious effort to shape their policies and to use a significant portion of their resources to foster economic development and social stabilization in deteriorating urban and rural areas.
- Calls upon universities, hospitals and other community institutions to balance their legitimate needs for expansion with the needs and rights of residents who are affected.

With Regard to the Role of the Church:

- Affirms that the church has a vital role to play in our society and in the world in proclaiming, in word and ministry, the ethical imperative that all must have a decent place to live.
- Affirms that the primary mission of the church in housing is with and on behalf of the poor, the elderly and the disabled, those who cannot on their own obtain decent housing.
- Affirms that for the church *housing is not only a matter of shelter but also of community* and that in our place of residence as elsewhere in our lives, as a servant people of God, we share responsibility for our neighbors and for the broader human community which God in Jesus has acted to make whole.
- Affirms that an important and prophetic role of the church in the

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1980s will be to explore new and creative models of providing housing which is moderate in cost, energy efficient and fosters community interaction and responsibility.

- Affirms that, particularly with regard to ministries of advocacy, churches should make every effort to work with and through coalitions and ecumenical groups.

With Regard to the Role of United Presbyterian Judicatories:

- Urges all judicatories through existing or newly created bodies to take a new look at the housing needs of the poor, elderly and handicapped within their bounds and to help meet those needs through advocacy with government and the private sector, direct development or renovation of housing, or developing an informed and sympathetic constituency.
- Urges congregations to:
  - — develop a process of self-education in local aspects of the housing problem;
  - — organize a housing committee;
  - — find and ally themselves with other groups who are working on housing, and especially seek partners from communities in need of good housing;
  - — give assistance to the organizing of tenants in deteriorating buildings to press for needed repairs and improvements;
  - — reexamine zoning ordinances and real estate practices in their own communities and to take an active part in helping to do away with any discriminatory practices which peremptorily deny housing to poor people and minorities;
  - — participate with local coalitions in monitoring the stance and actions of local governmental bodies on housing for low- and moderate-income persons;
  - — have representatives attend community meetings, meetings of city councils, zoning boards and boards of commissioners when housing matters are discussed and be advocates for decent housing for low- and moderate-income people.
- Suggests that synods and presbyteries highlight and study housing needs and ministries in judicatory training events in order to support and facilitate the sharing of information about housing ministries and

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resources, and work to develop in clergy and laity a greater sensitivity to the problems of housing where they live.

- Urges all judicatories to explore how their resources, including investment funds and property, can be creatively employed to support the development of decent housing and stable neighborhoods for the most needy people; for example, by providing seed money funds for non-profit sponsors of subsidized housing, or assisting tenant groups which wish to purchase their buildings.
- Urges presbyteries to distribute the paper, "Lazarus at the Gate" and implement its study in congregations and presbyteries.

With Regard to the Role of the Program Agency:

- Urges the Program Agency, by itself or ecumenically, to prepare a handbook for the guidance of judicatories, especially the local church, in organizing a housing task force and directing its activities. The handbook could include sections on organization, research, political activity, finances and direct action programs.

With Regard to Those United Presbyterians Engaged in Housing Ministries:

- Celebrates and affirms in common mission those United Presbyterians across the United States, and those in other countries, who struggle through a variety of ministries to bring about decent housing for all.

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RESOURCES

General

Community Associations Institute
303 S.E. Eads
Arlington, VA 22202 (703-548-8600)

Non-profit membership organization. Provides consultation for housing development. Write for publication list and information.

National Association of Housing & Redevelopment Officials (NAHRO)
2600 Virginia Avenue, N.W.
Washington, D.C. 20017 (202-333-2020)

Publishes monthly *Journal of Housing*. Guides and other publications relating to housing and community development issues.

U.S. Conference of Mayors
1620 Eye Street, N.W.
Washington, D.C. 20006 (202-293-7330)

Pamphlets and background material on community development and housing programs.

U.S. Department of Housing and Urban Development
451 Seventh Street, S.W.
Washington, D.C. 20410 (202-755-6420)

Publishes informational and technical material which is available through national and district offices.

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The Church and Housing

A Study Guide for the Background Paper "Lazarus at the Gate."
Available from: Office of Community Development, The Program Agency, Room 1244K, 475 Riverside Drive, New York, NY 10115. (212) 870-2919. $.75 per copy.

Exploring Housing Ministries
Church and Society Magazine, Sept-Oct. 1978, $1.00 from: Presbyterian Distribution Service, 475 Riverside Drive, New York, NY 10115. (212) 870-2775, PDS # 803-01-785.

Grapevine
A newsletter published monthly by Joint Strategy and Action Committee, Inc., 475 Riverside Drive, New York, NY 10115. (212) 870-3105. Vol. 10 No. 2, August 1978, "Housing Miracles." Vol. 9 No. 3, October, 1977, "The High Cost of Housing."

Housing Costs and Housing Needs
Edited by Alexander Greendale and Stanley F. Knock, Jr., Praeger Publishers, New York 1976. A useful compilation of articles and materials from a national conference on housing sponsored by the Interreligious Coalition for Housing, held in Washington, D.C., April 22-24, 1975. Contains a section on issues and proposals and an action guide. Available from: Office of Community Development, Program Agency, 475 Riverside Drive, Room 1244K, New York, NY 10115. Price: $1.50 each.

Institute on the Church in Urban-Industrial Society (ICUIS)
5700 South Woodlawn
Chicago, IL 60637 (312-643-7111)

Write for abstracts of recent books, periodicals and articles on housing and case studies of community action.

Interreligious Coalition for Housing
c/o Stanley Knock
ICH
1821 Redwood Terrace, N.W.
Washigton, D.C. 20012 (202-829-7259)

Sponsors consultations and conferences, monitors national legislation, publishes occasional papers and a newsletter.

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Cooperative Housing

National Association of Housing Cooperatives
1828 L Street, N.W.
Washington, D.C. 20036 (202-628-6242)

Information and advice on cooperative housing. Publishes monthly newsletter.

National Consumer Cooperative Bank
2001 S Street, N.W.
Washington, D.C. 20009 (202-673-4300)

Provides loans for development of cooperative projects.

Discrimination in Housing

Handbook for Congregations' Support of Fair Housing
Action-reflection guide for congregations. Includes biblical/theological materials, background information and suggestions for action. Developed by the Church and Society Committee, Presbytery of the Western Reserve, United Presbyterian Church in the U.S.A., 1380 Ontario St., Cleveland, OH 44113 (216-241-1776).

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National Association for the Advancement of Colored People (NAACP)
1790 Broadway
New York, NY 10019 (212-245-2100)

Housing office can provide advice and information. NAACP branches in many locations have active housing committees.

National Committee Against Discrimination in Housing
Room 410
1425 H Street, N.W.
Washington, D.C. 20005 (202-783-8150)

Provides information and resources to address housing discrimination and minority housing problems. Publishes bi-monthly newsletter *Trends in Housing* ($5/year).

Response to Crisis: A study of Public Policy Toward Neighborhoods and Fair Housing
June 1980, $2.50. Center for Community Change, 1000 Wisconsin Avenue, N.W., Washington, D.C. 20007.



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Housing for the Elderly

American Association of Homes for the Aged
1050 17th Street, N.W.
Washington, D.C. 20036 (202-296-5960)

Resource information on elderly housing. Publishes a bi-weekly newsletter.

Intergenerational House-Sharing
A feasibility study and resource manual. October, 1979. Available from Andrus Gerontology Center, University of Southern California, Los Angeles, CA 90007 (213-743-4348).

Options for Living Arrangements—Housing Alternatives for the Elderly
A housing manual to promote improved living arrangements for the elderly in urban, suburban and rural areas. June 1980, $2.50 per copy. National Council of Jewish Women, Task Force on Aging, 15 East 26th Street, New York, NY 10010.

Shared Housing Resource Center, Inc.
6344 Greene Street
Philadelphia, Pa. 19144 (215-848-1220)

A national consulting service promoting intergenerational housing alternatives for older people.

Monitoring Housing Programs at the Local Level

Center for Community Change
1000 Wisconsin Avenue
Washington, D.C. 20007 (202-338-6310)

Selected publications: *Citizens Guidelines on Community Reinvestment Act; National Survey of Housing Abandonment* (in conjunction with National Urban League). Extensive information on red-lining, community development, other urban issues.

National Urban League
500 East 62nd Street
New York, NY 10021 (212-310-9000)

Many local Urban Leagues have active housing committees and/or programs.

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Office of Housing and Monetary Policy (AFL-CIO)
Suite 508
815 Sixteenth Street, N.W.
Washington, D.C. 20006 (202-637-5310)

Selected publication: *A Guide to HUD Block Grant and Action Grant Programs* (designed for participation and monitoring for labor unions, but useful to other groups).

National Legislation and Government Programs

Low Income Housing Information Service
215 Eighth Street, N.E.
Washington, D.C. 20002 (202-544-2544)

Semi-monthly newsletter on legislative and administrative actions relating to low-income housing. Background on housing programs and legislation. Information on other resources.



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U.S. House of Representatives
Sub-Committee on Housing & Community Development
2129 Rayburn House Office Building
Washington, D.C. 20515 (202-224-3121)

Committee on Banking, Finance and Urban Affairs: has jurisdiction over all housing and community development legislation. Publishes texts of hearings.

U.S. House of Representatives
H218 Capital Building
Washington, D.C. 20515 (202-225-2771)

Committee on Appropriations. Handles all funding for federal agencies and programs. Hearings on HUD budget are valuable source of information on all HUD programs.

U.S. Senate
5300 Dirksen Senate Office Building
Washington, D.C. 20510 (202-224-3121)

Committee on Banking, Housing and Urban Affairs. Handles all housing and community development legislation. Publishes texts of hearings on housing legislation and related issues.

U.S. Senate
1218 Dirksen Building
Washington, D.C. 20510 (202-224-3471)

Committee on Appropriations. Comparable to House Committee.

Redlining, Displacement and Reinvestment

Institude for Local Self-Reliance
1717 18th Street, N.W.
Washington, D.C. 20009 (202-232-4108)

Explores possibilities of urban communities becoming productive, increasingly self-radiant systems, including raising their own food, generating their own energy systems, utilizing their "wastes," and directing their own affairs. Publications available include: *How To Research Your Local Bank.* Write for publications list.

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National Association of Neighborhoods
1651 Fuller Street, N.W.
Washington, D.C. 20009 (202-332-7766)

Information on conferences on neighborhood organization and action, housing displacement prevention (workshops, training). Call or write for more information.

National Center for Urban Ethnic Affairs
1523 O Street, N.W.
Washington, D.C. 20005 (202-232-3600)

Research and publication on local reinvestment strategies and case studies. Publications available: *Disclosure and Neighborhood Reinvestment: A Citizens Guide,* $1.50; *Neighborhood Reinvestment: An Annotated Bibliography,* $1.00.

National Training and Information Center
1123 West Washington Boulevard
Chicago, IL 60607 (312-243-3035)

NTIC provides a wide variety of services in community organization and neighborhood development, including training, consulting, and research. Publications available. Write for more information and publications list.

National Urban Coalition
1201 Connecticut Avenue, N.W.
Washington, D.C. 20036 (202-331-2400)

Publication: *Displacement: City Neighborhoods in Transition.* Has affiliates involved in housing and community development issues in a number of cities.

Neighborhood Reinvestment Corporation
1700 G Street, N.W.
Washington, D.C. 20552 (202-377-6815)

For information about local Neighborhood Housing Services programs. These programs provide assistance for a variety of local housing efforts and promote public/private partnerships to meet housing needs.

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New York Public Interest Research Group (NYPIRG)
5 Beekman Street
New York, NY 10038 (212-349-6460)

First-rate research and analysis on redlining in New York City. Loaded with useful information for other cities. Publication: *Take the Money and Run!* (Redlining in Brooklyn), $1.00.

Redlining and Urban Reinvestment
A CIC Brief, November, 1977. Obtain from Interfaith Center on Corporate Responsibility, Room 566, 475 Riverside Drive, New York, NY 10115 (212-870-2295). 1-10 copies, $.60 each.

Rural Housing

Farmers Home Administration
U.S. Department of Agriculture
South Building
14th & Independence, S.W.
Washington, D.C. 20250 (202-447-4323)

For rural areas, the agency with comprehensive community development programs is the FmHA. Has manuals on their programs, a listing of their state, district and county offices and regular mailing service to subscribers.

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Housing Assistance Council
1025 Vermont Avenue, N.W, Suite 606
Washington, D.C. 20005 (202-842-8600)

Information and simple handbooks on rural housing programs and needs.

Rural America
1346 Connecticut Avenue, N.W.
Washington, D.C. 20036 (202-659-2800)

A national membership organization for rural people. Information on rural housing problems and programs. Numerous publications on self-help, rural housing and other rural issues. Write for publications list.



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". . . The Lord your God. . . is not partial and takes no bribes. He executes justice for the fatherless and the widow, and loves the sojourner. . . . You shall therefore lay up these words of mine in your heart. . . you shall teach them to your children, talking of them when you are sitting in your house. . . . And you shall write them upon the doorposts of your house and upon your gates. . . " (Deuteronomy 10:11, excerpted).

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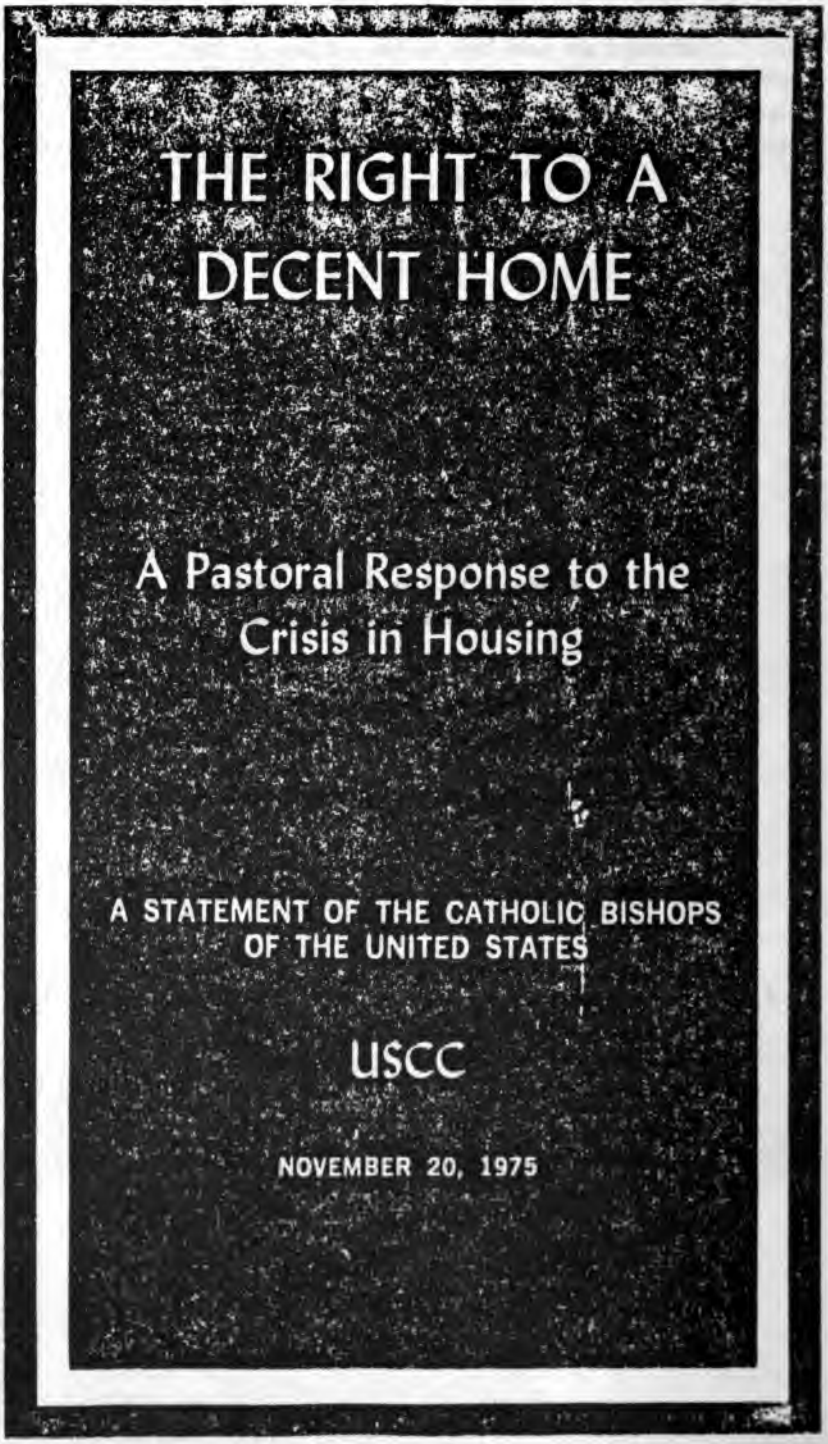


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THE RIGHT TO A DECENT HOME

A Pastoral Response to the Crisis in Housing

I. INTRODUCTION

1. The United States is in the midst of a severe housing crisis. This is a broader, more pervasive and more complicated phenomenon than the customary photographs of urban slums and rural shacks indicate. It involves more people, more neighborhoods and communities than was thought to be the case even a few years ago. It touches millions of poor families who live in inhuman conditions, but it also involves many middle income families whose ability to provide themselves with decent housing is being painfully tested. Rising costs of shelter, maintenance and utilities --as well as high interest rates and regressive property taxes-- are forcing many families to live in inadequate housing or to do without other basic essentials. Other low- and middle income families have been confined to neighborhoods without adequate services, minimal safety or necessary community life.

2. The dimensions of our housing crisis are apparent in the following statistics:

—One of every five families in the United States suffers from serious housing deprivation. They either live in physically inadequate buildings, suffer from severe overcrowding, or spend an excessive proportion of their income for shelter.[1]

—Housing costs have increased to the point that millions of families cannot obtain decent housing unless they deprive themselves of other essentials of life. Only 15% of American families can afford to purchase a median-priced new home.[2]

—4.7 million housing units lack adequate plumbing facilities and 5 million families live in overcrowded housing.[3]

—80% of those with incomes under $5,000 experience some form of housing inadequacy.[4]

—Two thirds of officially substandard housing is in rural areas and small towns.[5]

—It is estimated that over 23.3 million new homes will be needed between 1970 and 1980, yet housing production for the first quarter of 1975 was at the lowest level since World War II.[6]

—40% of our available housing stock is more than 30 years

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old and the accompanying deterioration and abandonment are threatening many neighborhoods.[7]

—It is authoritatively estimated that 13.1 million American families suffer serious housing deprivation.[8]

3. Over 25 years ago, the United States Congress declared the housing policy of this country to be "a decent home in a suitable living environment for every American family."[9] This goal has not been achieved. The harsh and frustrating reality is that it certainly will not be achieved in the near future and may never be achieved at all. This means that millions of American families are condemned to live in poor housing or in unsuitable environments unless dramatic action is taken.

II. HOUSING: A PASTORAL IMPERATIVE FOR THE CHURCH

4. In the face of this cruel and discouraging condition, we, the Bishops of the United States, cannot remain silent. The reality of this housing crisis provides a challenge to our country as we approach the bicentennial. In the past 200 years our nation, with the abundant blessing of God, has overcome many other complex problems and has provided a standard of living previously unknown to the world.

5. We are not so naive as to believe that there are easy solutions to this crisis. The housing crisis is overwhelming. It touches facets of our economic, political and social life that are extremely complicated. Any attempt to solve these intricate problems can give rise to petty self-interest and alarming divisions. Addressing ourselves to our own people and to the whole country, we plead with all, in both the private and the public sector, to confront our housing crisis with the courage, conviction and talent that have brought about our greatest achievements in the past.

6. As preachers of the gospel, we proclaim the message of Jesus Christ who identifies Himself with the needs of the least of the brethren. The second great commandment is to love our neighbor. We cannot deny the crying needs for decent housing experienced by the least of the brethren in our society. Effective love of neighbor involves concern for his or her living conditions.

7. We begin with the recognition that decent housing is a right. Our Catholic tradition, eloquently expressed by Pope John XXIII[10] and Pope Paul VI, [11] insists that shelter is one of the basic rights of the human person. The Second Vatican Council has said with great directness: "There must be made available to all men everything necessary for leading a life truly human, such as food, clothing and shelter. . . ."[12]

8. As teachers, pastors and leaders, we have the responsibil-

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ity to articulate the principles and values that govern the Church's concern for housing. We believe that each individual possesses an inherent dignity and priceless worth because he or she is created in the image and likeness of God. We also believe each person should have the opportunity to grow and develop his or her potential to the fullest extent possible. Human dignity and development are threatened whenever social and economic forces imprison or degrade people. We call on Catholics and all citizens to join us in working against these debilitating forces.

9. In particular, we take this opportunity to reflect on the consequences of poor housing. The physical and social environment play an important role in forming and influencing the lives of people. We cannot ignore the terrible impact of degrading and indecent living conditions on people's perception of themselves and their future. The protection of the human dignity of every person and the right to a decent home require both individual action and structural policies and practices.

10. Our faith teaches us that "the earth is the Lord's" (Psalm 24) and that wealth and private property are held in trust for others. We are trustees of God's creation, and as good stewards we are required to exercise that trust for the common good and benefit of our brothers and sisters.

11. The role of those who own land or other wealth is one of stewardship. While the Church has traditionally recognized the right to private property, that right is always subject to certain limitations. As the Second Vatican Council pointed out:

> God intended the earth and all that it contains for the use of every human being and people . . . Whatever the forms of ownership may be, as adapted to the legitimate institutions of people according to diverse and changeable circumstances, attention must always be paid to the universal purpose for which created goods are meant. In using them, therefore, a man should regard his lawful possessions not merely as his own but also as common property in the sense that they should accrue to the benefit of not only himself but of others.[1]

12. This teaching is central to a discussion of the ethical and moral dimensions of the housing crisis. It imposes major responsibilities on those whose land and shelter resources or skills might help society guarantee the right to a decent home.

13. This concept of stewardship must be reflected in our concern and action on housing. It must be practiced not only by individuals, but also by institutions. The Church must give witness to this trusteeship in the use of its own property and resources. Just as individual property holders are bound by this

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principle, so it must be reflected in public policy at each level of government.

14. Our concern is not simply for houses or programs but for the people who inhabit these dwellings or are affected by these programs. These include families whose attempts to create a stable and wholesome family life are inhibited by inadequate living conditions; people and parish communities in neighborhoods without the housing services or community life which foster love and Christian service; the many elderly whose meager incomes are consumed by housing maintenance costs, utility bills and property taxes; and countless young families who lack the resources to acquire decent housing. The statistics we cite are not simply numbers or points on a graph; they are individual human tragedies. We are shocked by the pervasiveness and depth of our housing crisis and what this means for our country and our people.

III. NATIONAL HOUSING GOAL

15. We affirm the national housing goal first articulated in 1949: "a decent home and a suitable living environment for every American family." We believe this inclusive goal is in line with the values and principles we have already articulated, and is a suitable basis for national policy. We take this opportunity, however, to suggest two needed qualifications of this goal. First, decent housing must be within the *means* of each family. The cost of such a home or apartment should not deprive the family of other essentials. Secondly, our housing goal must allow families *freedom of choice* as to where they will live and whether they will rent or own their homes. Equal housing opportunity and the possibility of home ownership for those who desire it should be integral components of our national housing policy.

16. As we have already stated, this national goal is far from being realized. Even now, social and economic forces—and current housing policy—make its realization more and more difficult. We are faced with the cruel paradox of urgent and growing housing needs and the inability of our present system of housing production, delivery and financing to meet this challenge.

17. The achievement of this housing goal will require a reordering of priorities and a substantial increase in expenditures for housing and community development. A realistic appraisal of our housing needs indicates that the resolution of our present crisis will be expensive and difficult.

18. In many ways the housing crisis is an institutional one, reflecting the limitations of our political, economic and social institutions. Effective action for better housing will depend on a competent analysis and significant changes in the structures and

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policies that have helped create and maintain our current housing delivery system. Our present way of financing and building housing seems not to lend itself to the resolution of our problems. Our traditional low or supply and demand has not proved adequate to the task of providing decent housing for all our people. The demand, as we have seen, is present and growing, yet the response is clearly inadequate, especially for low and middle income people.

19. The housing crisis is, of course, part of a larger pattern of neglect. It is intricately linked to other social and economic problems. In fact, poor housing is often cited as an index or symptom of general social deprivation. We do not undertake here an in-depth examination of the relationship between housing and employment, income, education, health, crime, discrimination, environment or transportation. However, we recognize that a lasting solution to our housing problems will require a comprehensive attack on a variety of social injustices. An essential dimension of comprehensive housing strategy is action on unemployment and inadequate income, which severely limit the ability of families to acquire decent housing. A comprehensive response to our shelter needs will include more than increased housing production and elimination of blight. This broader response requires a serious analysis of economic and tax policies, the treatment accorded neighborhoods and rural areas, the use of land and resources, as well as issues of environmental preservation and civil rights.

IV. HOUSING ISSUES

20. Questions of housing and community development are extremely complex and often technical. They involve a variety of interests: private enterprise and government participation; maximum production and environmental and consumer protection needs; increased housing needs and tight budgetary restraints; public interest and private gain; as well as questions of equity and efficiency.

A. Housing and the Economy

21. The housing crisis and proposed solutions to it are often stated in economic terms. The present housing crisis itself is often attributed to the critical state of the economy in a period of inflation and recession. However, there has been a serious housing problem for at least the last 25 years, during which we have experienced unparalleled prosperity. Since the problem has persisted in both good and bad economic times, it is apparent that we cannot rely on economic recovery alone to meet our housing needs.

22. Nonetheless, it is obvious that current economic diffi-

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culties have greatly intensified housing problems. For example, during the recent recession, housing production has been approximately one-half of the annual need of over 2.3 million units.[14] At this level of production, almost no housing for the poor is being constructed. Recession, inflation and monetary policies have combined to leave the housing industry in a lamentable condition. The recent steep decline in housing production was the fifth and sharpest in the last 20 years. This situation is particularly ominous for low-income families and apartment dwellers since the production of multi-family developments is even lower. Recent economic projections show some signs of hope, but even the most optimistic forecasters predict a level of housing starts well below our requirement.

23. Another serious factor in our current difficulties is the devastating impact of inflation. Rising construction costs, high interest rates and increasing utility bills have combined to make decent housing an unrealizable goal for many families. Studies indicate that 85% of American families cannot afford to purchase the median-priced new home.[15] The price of that median home rose from $23,400 in 1970 to $39,900 in May of 1975.[16] An income of $21,170 is needed to support the median-priced *existing* home.[17] Declining production, shrinking real income and the tendency of builders to produce higher-priced homes have severely limited the number of new homes available to middle- and moderate-income families. Low-income people face even bleaker prospects. Their rents and utility costs are climbing, yet they have virtually no place to go.

24. Another important economic factor is the availability and cost of housing credit. High interest rates substantially increase the cost of housing and often lead to a downturn in housing production. For example, the increase in the cost of buying a $25,000 home at 10% interest rather than 6% is $19,800 over the life of a 25-year mortgage.[18] National monetary policy must insure an adequate supply of affordable credit for socially desirable purposes such as housing.

25. The number, intensity and durability of these economic downturns in housing point out the necessity for fresh approaches. More efficient use of land and materials must be sought through the use of attached dwellings, planned unit developments and other innovations.

26. The focus of the housing crisis is shifting from problems associated with the *condition* of the structure to problems associated with the *cost* of housing. It is not that the problem of substandard housing has been solved, although progress has been made. Rather, the impact of economic factors has become so great that they must now become the central focus of efforts to remedy our housing problems.

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B. Neighborhoods

27. Housing conditions cannot be separated from the surrounding environment. City services, education, community cohesiveness, safety, government responsiveness, and location policies are critical factors in the creation and maintenance of decent housing.

28. In our view, the key element in the deteriorating urban environment is the decline of neighborhoods. In the past, the neighborhood has played a critical role in the lives of its residents. More recently, neighborhoods have lost some of their influence and importance. Centralized decision-making, suburban migration, deteriorating city services and the loss of ethnic identity have contributed to this decline and resulted in less responsibility for local concerns. A psychological and physical process of abandonment has set in, and fewer resources and people have been available to assist neighborhoods in combating blight and indifference.

29. Our cities are composites of smaller communities. Strong neighborhoods are the cornerstone of strong cities, and decent housing is a critical factor in the survival and viability of neighborhoods.

30. We applaud the renewed interest in neighborhoods by those who live in them and govern them. The neighborhood is the most logical basis for a positive housing policy. We hope that recognition of this fact will be translated into policies and provide neighborhoods with the tools and resources necessary to survive. The local parish has a critical role to play in the revitalization of neighborhoods. Effective use of revenue-sharing and community development funds can be a step in promoting neighborhood recovery.

C. Disinvestment

31. We are particularly concerned about the abundant evidence of "red-lining" or disinvestment. This is the practice by which financial institutions deny or restrict mortgage and home improvement loans in particular areas. This practice often becomes a self-fulfilling prophecy leading to the rapid decline of a neighborhood or community. Where it exists it must be condemned; discrimination based on geography is as destructive as other forms of discrimination. We must insure fair and equal access to available credit.

32. We urge banks and savings and loan associations to meet their responsibilities in central city areas. We commend financial institutions which have chosen to intensify programs of investment in these neighborhoods. We support the principle of disclosure of lending patterns. Savers and consumers are entitled to information about the lending practices and patterns of the institutions

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seeking their business. We also urge individual depositors and those responsible for Church funds to encourage a responsible and sensitive lending policy on the part of the financial institutions which they patronize.

D. Racial and Economic Segregation

33. There are disturbing signs of increased racial and economic segregation in urban areas. We deplore discrimination, still present in our society, against persons because of their race, economic status, sex, or religion. Such attitudes contradict the Christian belief in the equality and inherent dignity of all people and they must be opposed.

34. Central cities are increasingly becoming islands of economic hardship populated by the elderly, racial and ethnic minorities and the working poor. The eroding tax base of cities follows the trend of suburban migration. Exclusionary zoning continues as a major factor which limits housing opportunities for low and middle income families and minority persons in suburban areas. In addition to these economic hurdles, many persons still find their housing choice limited by discriminatory practices in the sale or rental of housing. Suburban communities must recognize and act on their responsibilities without utilizing improper zoning, overly rigid building codes, onerous referendum requirements, or other barriers to avoid contact with the less affluent.

35. Continued vigilance is necessary in the struggle to expand equal housing opportunity. We take this occasion to renew our support, expressed in 1966, for:

> Sound programs to assure equal housing opportunities for all, without discrimination of race, creed or color. Here is a unique chance for responsible dialogue, for learning from successes and failures and thus constructing harmonious communities in every part of the nation.[19]

36. The uniqueness of neighborhoods and diversity of communities are healthy signs. We have a pastoral responsibility to respond creatively to questions of ethnicity and race. Positive ethnic identity, whether it be Black-American, Hispanic-American, Irish-American, Italian-American, or any other, recognizes the worth of the individual and respects his or her particular cultural heritage and lifestyle.

37. However, heightened awareness of ethnic background cannot be allowed to lead to exclusionary practices or intergroup competition. Rather, a healthy sense of cultural pluralism should lead to a greater ability to interact with neighbors of different backgrounds in a positive way.

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39. The housing needs of rural minorities are especially acute and the established network of rural housing assistance is inadequate. An absence of racial discrimination efforts is no longer enough. We must step up our effective programs for the elderly and the poor.

E. Rural Housing

39. The housing crisis is often thought of as a predominantly urban problem. This misconception has resulted in dramatic consequences for rural people. According to 1970 Census figures, 30% of Americans live outside metropolitan areas, at the same time, over 60% of all overcrowded housing or units without plumbing are in rural areas and small towns. The housing crisis is at least as severe in rural areas as in urban centers.

40. The housing delivery system is inadequate in many small towns and rural areas. Almost half of all rural counties have no public housing agency. In addition, many rural areas do not have sufficient construction or financial institutions which make private development feasible. While some progress has been made, disparities remain.

41. Economic factors also account for widespread housing deprivation in rural areas. The gap between housing costs and income is even wider in rural communities than in cities. Only one rural family in twenty can afford the median priced newly constructed home. In recent years, one-third of all new housing units in rural areas have been mobile homes.

42. The simple fact is that neither rural people nor rural communities have the resources to solve their housing problems without outside assistance. It is clear that too often national housing policy has neglected rural areas.

F. Special Needs

43. Several groups in our society have particularly severe housing problems. The poor suffer disproportionately in this regard. They lack the income and economic resources to acquire and maintain adequate housing. Rising rents and utility costs, as well as a decline in the availability of low-cost housing, have intensified their problems. Four out of five families with incomes below $5,000 suffer some form of housing deprivation."[1]

44. Many elderly people have special housing problems resulting in part from their small fixed incomes, growing isolation, rising property taxes and housing maintenance costs. New approaches to housing maintenance and health care are needed to enable the elderly to remain in their own homes and communities. Present government housing programs for the elderly do not begin to meet the need. A recent survey of federal housing for the elderly revealed that, for every senior citizen in an apartment for

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the elderly, there is another on a waiting list for such an apartment. The average waiting time is over twenty months.[22]

45. Migrant farmworkers also suffer serious housing deficiencies. Their high mobility, low income and regular periods of unemployment seriously hamper their efforts to obtain decent shelter. The housing available in migrant farm labor camps is often deplorable, yet effective enforcement of housing standards is rare.

46. The high levels of poverty and unemployment among Native Americans in both rural and urban areas have seriously affected their ability to acquire good housing. On Indian reservations the problems are particularly severe. Two-thirds of the housing on reservations either lacks adequate plumbing or is overcrowded. Most lending institutions are reluctant to make loans to Native Americans whose reservation land is held in Federal trust. In addition, housing assistance is often caught in the bureaucratic maze surrounding the provision of services on Indian reservations.

47. People with physical handicaps often experience difficulty in obtaining suitable housing at a cost they can afford. The planning and construction of housing often restrict it to able-bodied people. Architectural barriers are often put in the way of handicapped people in conventional housing as well as public buildings and accommodations.

48. Housing policy must be more sensitive to the needs of these particular groups, whose problems have too often been neglected or intensified by past housing practices.

G. Housing Stock

49. The existing housing stock of nearly 70 million units is perhaps the largest single component of our national wealth. According to the 1970 Census, 27.4 million of these units are more than 30 years old. We must act now to preserve and maintain this valuable resource or it will be abandoned and lost to us.

50. Too often older housing has been allowed to simply deteriorate. Conservation of existing housing must be encouraged by modifying tax and fiscal policies which penalize those who seek to maintain and rehabilitate existing housing. These approaches can help preserve part of our housing supply and prevent the destruction and large-scale displacement of people which marked earlier urban renewal efforts.

51. Rehabilitation and housing maintenance programs which are innovative, imaginative and economically feasible should be encouraged and implemented. The preservation of existing housing is an essential and economical approach to meeting our housing goal.

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H. The Resource of Land

52. There is increasing awareness of the limitations of land and resources and the implications of these limitations on efforts to house our citizens. Since only a fixed amount of land is available and housing needs are growing, legitimate questions may be raised regarding the amount of land a person owns, the manner in which that land is used and regulation of land ownership by society.

53. The principle of stewardship discussed earlier has specific application to this question. As Pope Paul said in *Populorum Progressio:*

> . . . Private property does not constitute for anyone an absolute and unconditional right. No one is justified in keeping for his exclusive use what he does not need, when others lack necessities. In a word, according to the traditional doctrine, as found in the Fathers of the Church, and the great theologians, "the right to property must never be exercised to the detriment of the common good."[23]

54. Land speculation is a particularly vexing problem. Where basic human rights are concerned, one person simply must not take an unreasonable gain at the expense of another. Huge increases in the cost of land, resulting in part from such speculation, seriously impair efforts to provide affordable housing to people of low- and moderate-income.

55. The demand for land to meet a variety of competing growth needs, such as urban expansion, highway and mineral development, parks and recreation, is forcing upon us difficult decisions with respect to the use and control of our land resources. These decisions can no longer be left to the private market alone to resolve. Since land use decisions are characteristically irreversible and hold consequences for the nation as a whole, they should be opened to some degree of public participation. Legislation is urgently needed to facilitate such participation.

V. GOVERNMENTAL HOUSING ACTIVITY

56. The federal government has for decades exerted a major influence upon the production and consumption of housing. Its involvement in the housing field is intricate and tangled, including economic and taxation policies, regulation of mortgage financing, as well as provision of housing subsidies.

57. Since decent housing is a human right, its provision involves a public responsibility. The magnitude of our housing crisis requires a massive commitment of resources and energy. Government must supplement and regulate the activities of

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private individuals and institutions in order to achieve our housing goals. A creative partnership of private enterprise and government is necessary. Public agencies have a particular responsibility to aid those in need as well as to oversee the development of a comprehensive housing and community development policy.

58. Fiscal and monetary policy has a dominant influence on housing. The rise and fall of inflation, employment and productivity are felt to a pronounced degree in the housing market. Monetary policy, the availability and rate of credit are likewise critical factors in the system of housing production and consumption.

59. Beyond these broad economic policies the federal government utilizes two basic approaches in housing: indirect subsidies to homeowners through the tax system and direct subsidies to producers and consumers of housing.

A. Indirect Action

60. Indirect housing subsidies through the tax system make up the largest share of federal housing activity. In 1972, federal housing expenditures and tax subsidies rose to a level of $15 billion of which only $2.5 billion went for direct housing subsidy programs. This indirect tax subsidy consists primarily of the deduction of mortgage interest and property taxes by homeowners. It is estimated that this deduction alone will cost $11.3 billion in 1976.

61. The higher a person's income, the more likely it is that he will be entitled to this kind of subsidy, and the higher the subsidy is likely to be.[1] In 1972, less than 5% of the taxpayers with incomes below $5,000 were entitled to this kind of subsidy, as against more than 80% of all taxpayers with incomes above $20,000.[2] This means:

---Four out of five households with incomes over $20,000 received housing subsidies through the tax systems.

---Only one out of 20 households with incomes below $5,000 received this form of housing subsidy.

In addition, it is estimated that in 1976:[3]

---The 1% of the population with incomes over $50,000 will receive more than 10% of both direct and indirect housing subsidies (an estimated $1.4 billion in 1976).

---The 14% of the population with incomes below $3,000 will receive less than 7% of either direct or indirect housing subsidies ($0.9 billion)

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62. We do not quarrel with the objectives of these policies. The use of tax incentives to achieve desirable social goals (i.e., home ownership) can be appropriate, but it inevitably raises questions of equity which must be addressed through public policy.

B. Direct Housing Programs

63. Since the 1930s the federal government has used seven basic approaches to provide more direct forms of assistance to builders and consumers of housing.

1) Mortgage insurance, begun during the Great Depression, enabled millions of middle-income families to buy homes with long-term, low down payment mortgages.

2) Insurance of bank deposits and purchase of mortgages from private institutions—sometimes with a subsidy have provided a flow of credit into housing and sustained construction during periods of tight money.

3) Low interest rates for rental and sales housing have been direct subsidy programs since 1968. Under these programs, the federal government can reduce interest costs, thus substantially lowering the monthly cost to the consumer.

4) Public housing is the oldest direct housing subsidy program. Begun in 1937, it provides for building, buying, or renting housing by local housing authorities. Over one million public housing units are occupied primarily by families with incomes below $4,000.

5) Block grants recently have been made available to assist local communities in their efforts to provide adequate community development.

6) Housing assistance payments to families and individuals are currently being tested as a new approach to the housing problems of low-income people.

7) Large-scale leasing of housing units is a relatively new and untested approach to assist low-income people in gaining decent housing.

64. The Department of Housing and Urban Development (HUD) is responsible for administering a variety of programs in metropolitan areas across the country. The Farmer's Home Administration serves rural areas with direct lending and other programs. In the past, many of these federal programs were designed to encourage the participation of non-profit housing development corporations. A large number of these have been established by religious organizations or community groups.

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65. Currently, the federal government relies almost exclusively on its leased housing program to meet national housing needs. This is not enough. The housing crisis requires a variety of tools responsive to the many dimensions of housing need. No single program will be the answer. Programs which might be improved and used as effective vehicles for the production of housing should not be abandoned. The country needs a firm commitment by the federal government to meet our housing goal. The agencies charged with this duty must move forcefully and creatively to meet their responsibilities. Adequate funds and administrative staff must be made available to them. The free market, acting alone, cannot supply a sufficient quantity of low- and moderate income housing to meet our needs. A new commitment of will and resources is needed if we are to make progress in providing "a decent home and suitable living environment" for all Americans.

C. Local and State Activity

66. Local governments control housing development through zoning and building codes and the provision of such community facilities as streets or roads, water, sewers, schools and health and recreation centers. Many communities with older housing also have housing codes which set basic standards for all existing housing.

67. Unfortunately, on some occasions these local controls have been used to exclude minorities and the less affluent from communities and to evade common responsibilities for housing and community development. On a more positive note, however, many communities have initiated housing rehabilitation and construction programs aimed at providing adequate housing at costs which low and middle-income people can afford.

68. Recently, many state governments have set up housing finance agencies or departments of community affairs. They assist local communities with advice and resources, sometimes providing financial assistance and often using federal subsidy programs to help local groups.

69. These local and state efforts to provide greater housing opportunities for all our people are encouraging and should be expanded. We urge state and local governments to develop sensitive and responsible policies regarding land use and zoning disputes. We also hope local governments will use their new community development funds to assist the victims of housing deprivation.

VI. THE ROLE OF THE CATHOLIC COMMUNITY

70. The Catholic community has a responsibility to act effectively to help meet the needs of those who lack adequate housing.

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We must confess that we have not done all we could. It is not enough for us to point to the reality of poor housing and recommend that government and other institutions take appropriate action. We must also reflect on our own responsibilities and opportunities for action. We call on individual Catholics, dioceses and parishes, as well as other Catholic organizations, to join us in a new commitment to those who suffer from poor housing.

71. The Church alone cannot provide a significant quantitative answer to the cries for better housing. This is not its specific role, nor does it have the financial and technical resources to build all the required homes. However, it is our responsibility to proclaim the Gospel of Jesus Christ and its implications for our society. We must analyze in a competent and critical manner the aspects of housing which pertain to social justice. We must point constantly to human rights--and human suffering--involved in this issue. We must apply Christian social teaching to the resolution of the problem. We must seek to have a qualitative impact on the problem of housing deprivation in our society by attempting to change the systems and the policies that result in housing deprivation. There seem to be five possible approaches for Church involvement in housing: awareness, advocacy, providing services, stewardship and community-building.

A. Awareness

72. The first element of the Church's response is building awareness of the extent of the housing crisis and our participation in it. Christ's concern for those in need is an essential dimension of our Faith. The Catholic community must remind itself and all others that indecent housing is a moral and ethical issue demanding a response.

73. We cannot be at peace with ourselves while so many of our brothers and sisters suffer from inadequate housing. We are often unconscious participants in the systems that result in poor housing. All of us, through our involvement in the community, can assist in the development of humane and just policies pertaining to shelter. We encourage individual Catholics to join and support organizations which have demonstrated a sincere and effective concern for better housing for all people.

74. Particular persons have particular responsibilities. Those who own rental property must maintain and manage it in a way that provides decent, sanitary and safe housing. Landlords must respect the human dignity and rights of tenants and observe the principles of justice in setting their rents. Tenants must cultivate a respect for property and their neighbors and meet their financial obligations. Those employed in the housing field should seek to encourage a sensitive response on the part of private industry, labor unions and government agencies.

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75. We urge parishes and organizations within the Catholic community to undertake programs to promote understanding of housing problems and the role each of us might play in meeting those needs.

B. Advocacy

76. As an advocate, the Church should analyze housing needs in the light of the Gospel, make judgments and offer suggestions. On the national level, we should attempt to educate people regarding the demands of justice in the area of housing and suggest principles upon which proposals for change might be based. We should also involve ourselves in the ongoing dialogue over housing policy and underline the moral dimensions of the problem.

77. The United States Catholic Conference will continue to monitor and participate in the development of housing and community development policy. In line with the following principles we shall encourage governmental action that:

1) Affirms and advances the realization of the national housing policy of "a decent home and suitable living environment for all American families."

2) Provides a variety of programmatic tools and sufficient resources to meet the housing needs of low- and moderate-income families, including the continued participation of non-profit, community based housing corporations.

3) Focuses programs and resources on the special needs of the following: low-income people, rural Americans, the elderly, farmworkers, Native Americans and the handicapped.

4) Adapts our housing delivery system to meet the economic realities of inflation, recession and unemployment.

5) Recognizes the central role of the neighborhood in the survival of viable urban areas by encouraging rehabilitation and reinvestment in central cities.

6) Encourages land use policies that provide for adequate planning and effective controls on unreasonable and wasteful development and speculation.

7) Encourages a monetary policy and credit allocation system that provides a sustained supply of affordable credit for housing production.

8) Encourages the integral participation of housing consumers and tenants in decisions regarding housing at local, regional and national levels.

9) Encourages equal housing opportunity, within a framework of cultural pluralism, through voluntary compliance and, where necessary, legal remedies.

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78. We applaud the involvement of the National Conference of Catholic Charities, the National Catholic Rural Life Conference and the Interreligious Coalition for Housing in this area. We hope to work in collaboration with them and other groups in advancing these principles.

79. The same responsibility for action exists on the local and regional levels. We encourage local and regional organizations to work with their people and political leaders to achieve these same ends.

80. The parish is the setting for perhaps the most important Catholic response to poor housing. With its roots deep in the community, the parish can play a critical advocacy role regarding the housing problems of its people. Working with individuals, community organizations and members of the private sector, it can harness its own resources and energies to combat decay, blight and indifference. Parish programs of rehabilitation and housing maintenance could be initiated. In addition, parishes can join with others to utilize government programs and monitor public and private efforts to alleviate poor housing.

81. Through education and involvement, the local church can help its people gain a wider measure of justice in the area of housing.

C. Providing Services

82. The Catholic Church in this country has a long tradition of providing services to those in need. Our concern must also extend to the shelter needs of people.

83. Many dioceses, Catholic Charities and parishes have already sponsored the development of housing for low-income people and the elderly or have initiated rehabilitation programs. Using federal programs, Catholic institutions and organizations have provided a substantial amount of housing for low- and middle-income people and for the elderly. A 1974 survey of 60 dioceses conducted by the National Housing and Human Development Alliance indicated that more than 25,000 units have been built under Catholic sponsorship in the past ten years. Over 20 congregations of religious men and women are involved in housing, with 2,600 units already constructed.

84. We strongly support these efforts and are deeply impressed by what has been achieved thus far. Given the compelling need for new housing, we believe there is an important role for non-profit developers willing to sponsor viable and creative housing where the private market is unable or unwilling to build.

85. This special "housing ministry" requires sensitivity and adequate technical expertise. Housing sponsorship inspired by Christian values should bring a qualitative difference to housing. The housing development motivated by Christian concern must

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reflect a lively awareness of human need and the dignity of the person in its treatment of tenants, in its relationship to the local community, in its planning, location and employment practices.

86. There are a variety of other social and human services relating to shelter. Housing management, education in tenant rights and responsibilities, financial and personal counseling, housing rehabilitation and maintenance assistance are other important and appropriate services provided by Catholic organizations and individuals.

87. Providers of housing services should endeavor to involve tenants and the local community in an integral way in housing management and the provision of services. Housing sponsorship and management under Church auspices should provide models for others. This housing ministry must be encouraged, for it offers us an opportunity to act on our principles and give witness of our concern for the poorly housed.

D. Stewardship

88. In proclaiming the principle of stewardship, we must take note of the fact that the Church is also an institution possessing land, economic and personnel resources. While speaking to other organizations about the promotion of human rights and social justice, the Church must examine its own conscience and actions to determine if its efforts and use of resources are just. In the 1971 Synod document, *Justice in the World*, the Bishops state:

> While the Church is bound to give witness to justice, she recognizes that anyone who ventures to speak to people about justice must first be just in their eyes. Hence we must undertake an examination of the modes of acting and of the possessions and lifestyle found within the Church itself.

89. In the particular area of housing, we might take an inventory of our property and real estate, reflect upon its utilization and examine how it might better be put at the service of those who lack adequate shelter. We might also consider how we could make better use of our economic and personnel resources to assist those who need housing. In addition, a review of our investment policies may indicate how we might better harness our economic resources to assist in resolving the housing crisis.

E. Community Building

90. The alienation and isolation in our communities are important components of the housing problem. This more subtle concern is central to the resolution of the housing crisis. The Church is called to reconcile people with God and with one another, to bring them into a community of mutual support and

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love. We have noted that the Church must identify with the needs and aspirations of the community it serves. The Church should encourage the development of community organizations, neighborhood institutions and programs concerned with housing. As Pope Paul VI pointed out in *A Call To Action:*

> There is an urgent need to remake at the level of the street, of the neighborhood, the social fabric whereby man may be able to develop the needs of his personality. Centers of special interest and of culture must be created or developed at the community and parish levels with different forms of associations, recreational centers, and spiritual and community gatherings where the individual can escape from isolation and form anew fraternal relationships.[28]

91. It is important to recognize that historically neighborhoods often developed side by side with the growth of the local parish. If the neighborhood is the foundation stone of the city, it is obvious that the local parish plays a critical role in many neighborhoods. Often in rural areas and small towns a similar relationship exists between the local church and the community.

92. This fact imposes great responsibilities and provides important opportunities for the local church. With the encouragement of the local diocese, Catholic parishes in urban areas should seek out a creative pastoral role in the development of sound and healthy neighborhoods. In metropolitan and rural areas alike, parishes must develop a ministry of "community-building," helping to identify and resolve serious problems through education and participation in the life of the community. It should encourage its members to become informed and involved in community affairs and housing issues.

93. The parish itself should join with other community groups and churches to gain greater housing opportunities for all people. Traditionally, the Catholic parish has rendered a major service in meeting the educational needs of communities; it should now also attempt to meet other critical human needs, including the need of a decent home and a suitable living environment.

VII. CONCLUSION

94. The dimensions of the crisis in housing seem overwhelming in the number of people and communities affected, the complexity of the problem, and the magnitude of the effort required to meet our housing needs. There is a temptation to feel discouraged in the face of this situation.

95. However, we do not address this crisis to emphasize the difficulty, but to issue a challenge. The greatest obstacle is apathy and indifference. We ask all those in our society—individuals,

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private enterprise, government, social and religious organizations to reexamine what role they might play in eliminating poor housing in our nation. Responsibility for this problem has been passed from one segment of the community to another for too long. We pray that this statement will not further divide, but rather unite us in a common effort to meet our housing needs. For our part, we pledge to work with others in a renewed effort to promote awareness and action on the housing crisis. Shared responsibility, ecumenical coordination and cooperation with any group sharing our concern will mark our housing activities.

96. We are hopeful. We have faith in the basic values of people. We believe that once they understand the nature and extent of housing problems and their moral responsibility, they will respond with individual and collective action to meet housing needs. They believe, as we do, that every person has a right to a decent home in a decent environment.

97. Our hope flows from the core of the Gospel: new life springs from suffering and death. We believe our cities and rural areas can be resurrected and bloom again with renewed vitality and community life. As the prophet said:

> They shall rebuild the ancient ruins,
> the former wastes they shall raise up
> And restore the ruined cities, desolate
> now for generations. (Isaiah 61,4).

98. Our faith tells us that men and women are called by God to continue the work of creation, to fashion a better, more just society as we wait for the coming of the Kingdom of God. Effective action for decent housing is an essential dimension of this continuing creation.

99. This is a time for renewed dedication and action. Decent housing for all our people is a moral imperative. We pledge our support to those who carry out the demand of the traditional corporal work of mercy, "to shelter the homeless."

100. We are not suggesting a project or a program for this year or the next, nor are we calling for a reassertion of a public policy already declared, but never realized. What we are proposing is a long and determined effort, with all its frustrations, toward a better life for millions of Americans. This task is more than an element of a better society or an aspect of the common good; it is indispensable to the future health of America and its people.

101. In this undertaking, we summon our fellow Catholics and all who recognize this pressing concern to a task that calls for intelligence, resiliency and unremitting vigor. We will find allies in this work, and we must welcome them; we will find foes

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who think our dream utopian and unrealizeable, and we must persuade them. The one thing we cannot do is to acknowledge the immoral situation of indecent, inadequate housing and do nothing about it. We seek in this statement to initiate a fresh response to the unanswered pleas for help that come from the oppressed, neglected and forgotten. We pledge our continuing efforts as we set out on the long road that offers a lasting hope for decent shelter to this nation and its people.

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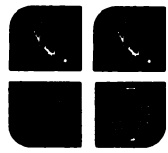
1975
Publications Office, UNITED STATES CATHOLIC CONFERENCE
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A Message to the Churches

"THE RE-MAKING OF AMERICA?"



National Council of the Churches
of Christ in the U.S.A.

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INTRODUCTION

Following the election of 1980, various church groups became increasingly concerned about the effects which the policies being advanced by the new Administration would have on their particular concerns: child day-care centers, food-stamps, unemployment, CETA workers, Aid to Families with Dependent Children, Vietnam veterans, handicapped persons, special education, environmental protection, etc.

As a result of a series of ecumenical discussions, church people discovered that their concerns were shared by others, and that the pattern of proposed policies of the government formed an ominous pattern, a reversal of direction for the country as a whole. Following further research on the development of this pattern, a committee in the National Council of Churches, which included members from several of its program units, began to draft a statement calling attention to this pattern.

That statement was discussed, amended and approved by the program unit committee of the Division of Church and Society in a special session on May 11, 1981, after which it went to the Governing Board of the National Council of Churches meeting in Philadelphia on May 13, 1981. The Board members spent several hours discussing it in small groups, as a result of which several more revisions were made. On Friday, May 15, 1981, the Board adopted the statement, with a few minor amendments, as a Message to the Churches entitled, "The Re-Making of America?"

It is designed for study and discussion in the churches as they seek to understand God's will for them, the nation and the world. Not everyone will agree with it, but differences of opinion are healthy as long as they are devoted to the right subjects. This Message will have been successful if it inspires church people to focus on the crucial subjects of our time: what direction does God want us to go - as Christians, as a nation, as the human race? How can we best serve God's purposes in our daily lives and our work with others for the building of God's Kingdom?

"THE RE-MAKING OF AMERICA?"

A MESSAGE TO THE CHURCHES FROM THE GOVERNING BOARD of the NATIONAL COUNCIL OF THE CHURCHES OF CHRIST IN THE U.S.A.

Adopted May 15, 1981

In thousands of news stories and editorials*, the public record of the dramatic changes in national policy proposed by President Ronald Reagan and his administration has been written in the past few months. The Governing Board of the National Council of Churches, on the basis of that record, calls to the attention of member communions that these proposals "to get America back on track" represent not merely a shift of emphasis – a little less here or a little more there. They are, rather, a reversal of direction for this country as a whole, and threaten the vision of America as the model and embodiment of a just and humane society.

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Consider the following evidences of that reversal:

A. The new Administration asks us to amend an understanding of America's government as responsible in a fundamental way "to promote the general welfare."

Since the havoc of the Great Depression, administrations of both parties have recognized an ultimate responsibility in the federal government to promote the conditions in which all members of this society have enough to eat, a decent place to live, a basic education, and the necessities of a minimum standard of living, not as a matter of *charity* but of *entitlement*.

That goal has never been attained, but for half a century the nation has been moving toward it – until now. The policy of the new administration is not just to cut back on human services, but to deny

* See excerpts at end of message.

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that people are entitled to them. By its budget recommendations, which eliminate many human service programs and sharply curtail others, it seeks not to slow the nation's progress toward the goal, but to reverse its commitment. When inflation has rendered the current "poverty level" obsolete, to cut back even farther to a so-called "safety net" for the "truly needy" is to abandon the working poor to hopelessness and destitution, particularly in a time of limited economic growth. It is a turn backward from the effort to build an economic floor for the whole society to a former time when America was officially indifferent to the suffering of those whose best efforts were not enough.

Such a reversal of America's national commitment to a more humane society is contrary to the best insights of both Christian faith and the national creed.

B. The new Administration asks us to turn back from an understanding of America's public lands as held primarily for public enjoyment.

Since at least the presidency of Theodore Roosevelt, the policy of the nation has been to build and hold a public possession of national parks and forests, of clean air and pure waters, for current enjoyment and as a legacy for future generations. The new administration would turn back from that goal to a bygone era when the continent and its riches were seen as the rightful booty of those who were able to exploit them for their private gain.

Giving away the public inheritance to private entrepreneurs is more than an about-face. It is an offering to "the sheer, naked, untrammeled greed that once made this country great."[1] And no future change of heart can reverse the destruction of this legacy. In a similar approach to the common riches of the sea, the new administration abruptly withdrew from participation in the final consideration of the international Law of the Sea Treaty, seven years in the making, in order "to improve assured access for private industry to mine the deep sea bed"[2] – an access already assured. These examples of administration solicitude for the "truly greedy" stand in stark contrast to its lack of solicitude for the poor, as expressed in the doctrine of "no entitlement to human services."

C. The new Administration asks us to slow America's movement toward a safe, efficient and renewable energy future.

Faced with sharply increasing costs and the need to shape an energy future not dependent on oil, the nation has been moving slowly but certainly toward policies and programs to promote conservation, more efficient use of energy, and the development of alternative sources that will be renewable or reliable over a long period. That movement is to be reversed. The new administration's budget virtually eliminates residential weatherization programs and the Solar Energy Conservation Bank, and substantially reduces energy assistance programs for the poor. Energy Secretary Edwards has announced, with regard to fossil fuels, "The voters have sent a clear message to us in Washington: Produce, produce, produce."[3] Pushing aside concern over the possible perils of nuclear energy generation and the problem of nuclear waste disposal, the administration seeks to reduce support for renewable energy technologies and expand support for nuclear energy. Ignoring the specter of excess capacity now clouding the future of the nation's utilities, Secretary Edwards resolutely asserts that "we need to get the nuclear power industry back on track."[4]

D. The new Administration asks us to mute America's advocacy for the rights of all human beings everywhere.

Concern for human freedom and inalienable rights has been a constant theme of the United States. Particularly since the organization of the United Nations in 1945, America has been one of the leading exponents of concern for human rights everywhere in the world, even though its own actions were not always what they should have been. The previous administration attempted to make human rights a primary operative foundation of the nation's foreign policy, but now that effort is to be abandoned.

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It is not simply that America will relinquish its leadership in championing human rights – imperfect as it may have been. It is not simply that this nation will relax its efforts and subside to a common level of low concern. Rather, in a significant reversal, the new administration asks the nation to lead the retreat from international commitment to the realization and protection of human rights, and to abandon the nations and peoples that have shared America's commitment and hoped in America's constancy.

Among other consequences of this reversal, the United States would shore up repressive regimes around the world by military assistance; recede from arms sanctions against South Africa; and repeal the Clark Amendment banning covert aid to guerrilla forces inside Angola.

The positive concern for human rights has been replaced by a selective pre-occupation with "terrorism." When concern about terrorism – admittedly a serious problem – becomes the rationale for supporting repression in other nations, many Americans can only feel anxious about their own nation, remembering the hysteria of the McCarthy era when "national security" was invoked to justify the repression of dissidents in the United States.

E. The new administration asks us to turn from America's search for peace through negotiation in order to seek it through military predominance.

Since the end of World War II and the concurrent beginning of the nuclear age, this nation has attempted to seek and maintain peace through diplomatic rather than military means, through multilateral more than unilateral channels, through negotiation rather than coercion (the exception of Vietnam notwithstanding). It has relied on the concept of "mutual assured destruction" to provide an uneasy umbrella for this fragile enterprise in the world – the assurance that the consequences of nuclear exchange are too devastatingly costly for any nation to risk it. Now all that is to be reversed. Nuclear superiority and the capacity to project overwhelming military power anywhere in the world are proposed as basic national policies. Resources that previously contributed, however inadequately, to efforts to improve life are now to be diverted to produce more weapons of death, increasing inflation and accelerating the international arms race. Although the United States and the Soviet Union both have more than enough strategic nuclear warheads to kill the earth's people several times over, yet further weapons escalation is proposed.

Reversing an increasing willingness to see the world in its real diversity and pluralism, the new administration is determined to turn away from the uneasy detente of the past decade and revive the distorted vision of the bi-polar Cold War world, in which all adverse occurrences, at home or abroad, are attributed to the machinations of a single force – Communism. Turning from the growing satisfaction of being one of a worldwide community of nations, this administration proposes to make America "Number One" in the world. Not number one in literacy, life expectancy, or assistance to less developed nations. Not number one in freedom from infant mortality, drug addiction, crime or suicide. But, rather number one in military dominance, in the ability to impose our will on others or to kill multitudes in the attempt.

There are real dangers in the world, and the behavior of other nations sometimes threatens peace and justice – witness Afghanistan. Those dangers are not lessened by this nation's turning from the path of patient strength.

II

There have been numerous criticisms of the particular elements in these and other changes of direction proposed by the new administration, pointing out the specific pain and peril each imposes. But the over-riding moral and political issue for the nation is not so much in the specific proposals as in the pattern that they pose, in the vision of America and its values that lie behind these. Congressman Michel is correct: "The issue is not one of figures but philosophy...who we are and where we're going."[5] In the new administration's philosophy, the nation confronts a crossroads choice between

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alternative visions of the meaning and purpose of America.

The alternate vision of who we are as a nation held out by the new administration has been embedded in a budget, distracting many from its true dimensions. Its sweeping changes are proposed to meet an economic emergency purportedly created by runaway government spending and unbearable tax burdens – in this wealthiest of nations that now collects a smaller portion of its wealth in taxes and spends a smaller percentage of it for public purposes than any European democracy! To remedy this alleged condition, however, the Reagan philosophy requires not a cut in government spending so much as a massive transfer of public money from people assistance to military procurement – the most massive such shift in peacetime history. It further proposes not so much a reduction in taxes as a use of the tax system to effect a substantial redistribution of wealth to those already wealthy. Together, these two changes quite simply mean the use of the nation's government to serve the interests of those who least need help at the expense of those who need it most.

All of this is offered in the name of an economic theory not so much untested as repudiated. It was once called the "trickle down" system. It is not a radically new and imaginative solution to America's social and economic problems, but, with the other elements of the administration's philosophy, a replay of an old and seductive vision of what America is all about, a vision that has been present from the beginning and still competes tenaciously for the nation's soul.

What are the elements of this vision? From the first, there were those who saw America as a rich treasure waiting to be exploited for the benefit of those daring enough and strong enough to take it. They came first for gold, for spices, for furs, for tobacco; then for land and iron and silver and copper and trees. In this vision of America, the fittest survive and prosper, and there is little room for public purpose since it interferes with private gain. Compassion is a weakness in the competitive struggle of each against all, and charity is the voluntary option of individuals. Government is at best a necessary evil which must be strong enough to protect privilege from assault but kept too weak to impose public responsibility on private prerogative. In this vision, America is seen principally as Empire – "Manifest Destiny," "54-40 or Fight," "Remember the Maine" – with a mission to extend its power and commerce throughout the continent, the hemisphere, the world.

But another vision of America has been present from the beginning also. This second alternative vision has deeproots in religious faith and biblical images of divine intent and human possibility. The precious possession of pilgrims and padres, it was a vision of creating in the New World a new model of human community – the New Jerusalem – free from the oppression and misery that entrenched power and privilege perpetuated in the Old World they had fled.

In this America, it was envisioned, government would promote the common welfare and secure the blessings of liberty for all. The dignity and worth of each person would be respected and protected as a matter of policy as well as piety and each person's potential would be developed to the fullest. Justice and compassion would reign in alabaster cities that stretched from sea to shining sea, and the bountiful resources of a favored land would be thankfully received and gladly shared with the whole family, as the nurturing providence of the Creator meant them to be. This America would be known in the world for its compassion, its deep desire for peace and justice, its commitment to human rights and human decency. It would stand as a beacon and a model, a city set on a hill, its power stemming from the irresistible example of a just, caring and peaceful people sharing life and treasure generously with all the people of earth.

This vision of America has never been fully realized, but it has never been abandoned. It has been of immense significance to the rest of the world, where echoes and adaptations of it are seen in the revolutions and the constitutions of many nations. It has been a constant magnet in this nation's domestic life, drawing it away from slavery and sweatshops, chain gangs and lynch mobs toward broader opportunity, deeper compassion, fuller

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equality and greater justice for all.

III

These alternative visions of America have vied for supremacy throughout the nation's history. Both have been given religious sanction in different ways and at different times by America's churches. Both are still deeply rooted in the heart of America and the hearts of Americans. Yet even in those past times when the first vision – America as private opportunity and empire – dominated American practice, the second vision – America as public responsibility and compassionate neighbor – maintained its foothold in the deepest recesses of the nation's soul. Glimmering in the founding documents and echoing in inaugural addresses and Fourth of July speeches down the years, it is acknowledged by nearly all Americans as the vision that best expresses who we truly long to be and where we truly wish to go.

Now the new administration seeks emphatically and forthrightly to reverse the record of half a century and shape the nation decisively to the first vision once again. It claims a mandate from the people to do so; and indeed it would not have the opportunity to try if that vision were not still so strong in so many of us. Nevertheless, as the real intent and scope of the administration's philosophy become clearer and clearer, the American people will themselves decide whether they conferred a mandate for such a vision of the nation.

The Executive Committee of the National Council of the Churches of Christ in the U.S.A. on February 20, 1981, stated its "fundamental disagreement with the proposal to increase our death-dealing capacity while cutting back on life supports for our citizens," noting that "the budget cuts proposed by the administration demand intolerable sacrifice from the nation's needy and place a disproportionate burden on minority groups, the elderly and families headed by women." The Governing Board of the National Council of the Churches of Christ in the U.S.A. reaffirms that fundamental disagreement with the new administration's vision of "who we are and where we are going,"[6] and expresses deep concern about the probable consequences of its implementation.

We do so not in the service of "special interests," as the President refers to those who question his approach, but in the sure conviction that the vision of America the nation is now asked to espouse is not in the common interest of Americans or the world.

When Christians have lived most fully according to the gospel, they have urged the nation *toward* care and compassion, not *away* from them. The Scriptures call us to a vision that supersedes all social visions, to a vision of a "good and broad land," a new earth and a new heaven. Jesus of Nazareth launched this new age, as Mary envisioned it in the Magnificat:

He has shown strength with his arm,
he has scattered the proud in the imagination of their hearts,
he has put down the mighty from their thrones,
and exalted those of low degree;
he has filled the hungry with good things,
and the rich he has sent empty away.
(Luke 1:51-53)

And as he proclaimed it in his own first public message, quoting Isaiah:

The spirit of the Lord is upon me,
because he has anointed me to preach good news to the poor.
He has sent me to proclaim release to the captives
and recovering of sight to the blind,
to set at liberty those who are oppressed,
to proclaim the acceptable year of the Lord.
(Luke 4:18-19)

The Christian Church has not always served this vision-above-all-visions well, often more concerned for its own institutional success or survival than for the plight of the poor. In these days, when economic anxiety lures fundamental fears and selfishness to the surface of human motivation and the nation is tempted to make them the basis of policy, we must never forget that "judgment begins with the house-

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hold of God." The Governing Board calls upon the units of the National Council of the Churches of Christ in the U.S.A. and its constituent communions to give serious study and continuing attention to the development of resources and programs that will assist churches and church members to understand and respond effectively to the issues of justice in the life of the nation and the world as they participate in the public debate over national purpose and goals.

Let us pray for the wisdom, courage and strength to serve God and nation faithfully in the days that lie ahead.

Footnotes

1. See Annex. Quotation No. 8
2. *Philadelphia Inquirer*, AP story by O.C. Boelling, March 9, 1981.
3. *The New York Times*, Op-Ed page, April 7, 1981.
4. *Ibid.*
5. See Annex. Quotation No. 9.
6. See Annex. Quotation No. 9.

Annex:

Excerpts from

RECENT PRESS COVERAGE:

1. "In perhaps the largest shift of financial resources proposed in the nation's peacetime history, President Reagan disclosed tonight that he planned to increase the military budget from 24.1 percent of federal spending to 32.4 percent over the next three years."

New York Times
February 19, 1981

2. "More than half the people in the country with incomes below the offical poverty line either receive no protection from what President Reagan has termed the 'social safety net,' or get, at most, a free lunch for their children on school days."

New York Times
March 17, 1981

3. "The idea that's been established over the last ten years that almost every service that someone might need in life ought to be provided, financed, by the government as a matter of basic rights, is wrong."

David A. Stockman,
Director of the Office of
Management and Budget
New York Times
March 29, 1981

4. "Treasury Secretary Donald T. Regan said Wednesday that the Reagan Administration is preparing a contingency aid package for the troubled savings and loan industry that will be ready within a couple of weeks. 'We're going to be standing on the dock with a life preserver,' Regan told the Times in an interview..."We know they're in troubled times and we stand ready to help if they get in dire straits,' he added."

Los Angeles Times
March 5, 1981

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5. "Secretary of the Interior James G. Watt today promised to rearrange national priorities and allow private interests to search for strategic minerals beneath public lands."

San Francisco Chronicle
March 3, 1981

6. "There is no reason for someone in Sioux Falls to pay federal taxes so that someone in Los Angeles can get to work on time by public transportation."

David A. Stockman
Director of the Office of
Management and Budget
Testimony before the Senate
Appropriation Committee
March 24, 1981

7. "In an article written two years ago for *Policy Review*...Lefever [Assistant Secretary of State for Human Rights nominee] said, 'in a formal and legal sense, the United States government has no formal responsibility – and certainly no authority – to promote human rights in other sovereign states.' "

Philadelphia Inquirer
February 6, 1981

8. "What Reagan is banking on, in a quite literal sense, is that the initiative and ingenuity, and the sheer, naked, untrammeled greed, that once made this country great are still there, waiting to be reactivated. And it's probably high time we found out whether they are or not."

David R. Boldt
Editor of the *Today* magazine of the
Philadelphia Inquirer
March 29, 1981

9. " 'The issue is not one of figures, but philosophy,' countered Bob Michel, the republican minority leader from Illinois. 'It [the Reagan budget] spells out who we are and where we are going.' "

New York Times
May 8, 1981

Questions for Discussion of the Message

1. The Constitution of the United States begins: "We the people...in order to...*promote the general welfare*...do ordain and establish this Constitution. What responsibility does that mean for the government? Is it to protect people from injury, illness, starvation, unemployment, illiteracy?
2. What are the causes of poverty in the United States?
3. What are the best ways to eliminate poverty?
4. Should the government insure economic security of all the people?
5. What direction does God want us to go - as Christians, as a nation, as the human race?
6. How can we best serve God's purposes in our daily lives and our work with others for the building of God's Kingdom?

At its meeting June 10 - 12, 1981 the Working Group on Domestic Hunger and Poverty of the NCCC/Division of Church and Society affirmed the Message to the Churches. It authorized the printing of the Message along with the directory of the Ecumenical Domestic Hunger Project Network. These community organizations work with the justice issues identified in the Message. If you wish, communicate with members of the Network in your study of the Message.

Colleen Shannon-Thornberry
Chairperson
Rev. Donald A. Gall
Vice-Chairperson

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CALL TO ACTION

from the

National Low Income Housing Coalition

215 EIGHTH STREET, N.E., WASHINGTON, DC 20002 (202) 544-2544

February 1982

EVERYONE WHO CARES ABOUT DECENT HOUSING FOR LOW INCOME PEOPLE MUST STAND UP AND SAY SO, NOW!

As described inside, President Reagan's budget would devastate low income housing programs. The housing cuts are far worse than we feared — deeper than almost all the other low income cuts combined.

Only a concerted, intense, and persistent effort can save over three million households from insupportable rent increases, preserve our existing subsidized stock, get the 700,000 units now in the pipeline built and occupied, and preserve federal assistance for continued low income housing production in both urban and rural areas. We ask your help, now, in a four-pronged strategy:

1. Help us get as many signatures as possible on a new, sign-on statement in support of low income housing programs.We're aiming for a broad range of signers from every state and Congressional district.

2. Meet with your Representatives and Senators to discuss the budget cuts and rent increases. Tell them, face-to-face, why you oppose them. Be specific on how they will hurt low income people in your community. Best of all, organize broadly based delegations (community people, low income tenants, church and civil rights leaders, labor leaders, public officials, and housing producers) to meet with Senators and Representatives before or during the April "district work period" (April 7-19).

3. Help organize current and potential assisted housing tenants to fight the rent increases. As soon as HUD submits its proposed legislation (so we know exactly what is proposed), we will provide a simple form for tenants to figure out their rent increases. Tenants will be encouraged to send a copy of the form to their Congressional delegations, with a protest letter. We will also collect copies at the Coalition and use them to supply material to Representatives who will speak out against the rent increases on the floor of Congress.

4. Work with other coalitions and groups fighting the budget cuts affecting low income people, and be sure that low income housing is on their agenda.

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The Coalition is spearheading a Housing Action Campaign, working together with other housing groups. We hope, by the middle of March, to have a temporary staff person at work to help local groups organize around the sign-on letter and Congressional visit. Our focus will be on members of the key committees (see list) as well as on the so-called "boll weevils" and "gypsy moths".

We are also working closely with the Budget Coalition and the Fair Budget Action Campaign, so we can put you in touch with them and their networks, if you're not already involved.

SIGN-ON STATEMENT FOR CONGRESS

To demonstrate the broad base of support for low income housing programs and debunk the notion that there is no broad-based constituency for low income housing, the Coalition is organizing another broad-based "sign-on" effort. Our plan is to use the same statement at each key point in the legislative process. So we will be keeping the statement open for signing until Congress acts finally on 1983 housing authorizations and appropriations.

However, we need a fast start. The House and Senate Budget Committees will be drawing up the budget resolutions early in April. We want the statement with as many names as possible in their hands by April 1. This means we need to hear from you by the end of March. Then, early in May, we will give the statement to the House and Senate Banking Committees as they consider housing authorization levels, and to the Appropriations Committees, as they act on funding (probably late May or June). Our target is 5,000 organizations signed on by the end of April, and another 5,000 by the end of June.

The sign-on letter to the President in December 1981, with 1500 state and local organizations, not only impressed many people here but was a good organizing tool to help build local and national support for low income housing.

Here's the draft:

> The undersigned ____ national and _____ state and local organizations from ____ states urge Congress to reject the low income housing budget proposals of the Reagan Administration. These proposals amount to a rejection of the longstanding, bipertisan commitment to providing housing assistance to low income people.
>
> This is a time of housing crisis, especially for low income people. New production is at its lowest level in two generations. Rents in the private market are beyond the reach of millions of low income households An ever-growing number of people are homeless unable to find any accommodations whatsoever. Almost 20% of all construction workers are unemployed.
>
> Instead of expanding housing assistance to meet the growing needs of low income people as the affordable supply of rental housing

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dwindles, the Administration proposes massive rescissions and recaptures of already appropriated funds Moreover, proposed rent increases and arbitrary ceilings on the amount of assistance frustrate the purpose of low income housing programs, bth by making subsidized housing unaffordable for millions of low income households and by jeopardizing the continued operations of hundreds of low income housing projects.

In place of these draconian measures, we urge Congress to maintain this nation's commitment to meeting the housing needs of low income people by:

1. Preserving the present stock of assisted housing, in viable condition, without ruinous rent increases.

2. Producing the housing now in the pipeline as rapidly as possible by rejecting any proposed rescissions or deferrals of already appropriated funds, and effectively opposing any arbitrary efforts by the Administration to terminate commitments for low income housing assistance.

3. Supporting production and rehabilitation programs which will benefit lower income people. This includes the present Section 202 housing for the elderly and handicapped, Farmers Home 515 rental housing program, low rent public housing, and other approaches which are compatible with this objective.

4. Maintaining an adequate level of rural housing programs, including rental assistance home ownership, farm labor housing, self-help housing and the water and sewer programs which are required for development in rural areas.

We call on the Congress of the United States to act decisively to meet these housing needs.

INSTRUCTIONS: We want organization names only, unless there are key public officials, such as mayors or governors, who wish to sign. It's possible to call in and leave names and addresses on our answering machine. If you do this spell all names and addresses. We'd prefer a written communication. Use the form below or make your own.

TO: NLIHC, 215 Eighth Street, N.E., Washington DC 20002

Sign us on to the 1982 low income housing statement:

Organization _____
(Print name, exactly as it should be listed)

Address

City State Zip _____

Contact person: Phone_____

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WAYS TO GET SIGNERS AND DEVELOP SUPPORT FOR LOW INCOME HOUSING

- Take copies of the letter and sign-on forms to all meetings you attend. Ask for time to explain the devastating housing cuts and then ask organizations to sign on.

- Call a special meeting of the groups concerned with low income housing in your area. Together, make up a list of all the kinds of housing-related and other groups you can approach to sign the statement (neighborhood and tenant organizations, nonprofit organizations, housing authorities, producers, church, civil rights, senior citizen and labor organizations, service clubs, etc). Then have each person take assignments and pledge to get a specific number of signers by the end of March (This process can continue through spring and summer, too, if Congress takes that long to make final decisions.)

- Use the statement as an opportunity to approach local and state elected officials to enlist their support. Get governors and mayors to sign, and ask city councils, county commissions and state legislatures to pass resolutions in support of the statement.

- Keep a list of organizations and key contacts (with phone numbers) that you get to sign on, and use it as the basis of a "telephone tree" so you can reach people quickly when key votes come up.

- Take a copy of the statement with the signers from your state to meetings with your Senators and Representatives. (For copies, send us a stamped, self-addressed envelope and we'll send you the most recent version.)

1983 BUDGET DEVASTATES LOW INCOME HOUSING PROGRAMS

[The following statement has been widely distributed by the Coalition, to Congress, the press, and others. Feel free to reproduce it for local use

Low income housing will bear the brunt of the $56 billion in budget cuts proposed by President Reagan. Measured in "budget authority", or spending commitments, the 1983 budget provides $32 billion less than "current services", or the amount needed to maintain federal programs at their present levels. However, since there is a $30 billion increase above current services in budget authority for national defense, the total cut in all other programs is $62 billion.

$23 billion, or 37%, of this $62 billion cut comes from low income housing programs. This is by far the largest cut proposed for any activity of the federal government. In fact, it is almost $5 billion

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more than the combined total of all the other cuts in education, training, employment, social services, health (including Medicare and Medicaid), food stamps, welfare, and other income security, safety net programs.

In addition, President Reagan wants to rescind the entire 1982 appropriation for new or rehabilitated assisted housing units, to get rid of many existing subsidized units, and to raise rents to the point where federally subsidized low income housing may cost more than unsubsidized housing.

Indeed, the 1982 and 1983 low income housing cuts would be more than enough to fund the entire 1983 increase in the defense budget if the Administration's program carries unchanged!

If adopted by the Congress, the impact of the budget and legislative proposals would be disastrous for low income people.

- Hundreds of thousands of low income units already approved for subsidy will never be built or rehabilitated, because the subsidy commitments will be withdrawn

  The Administration proposes cancellation of hundreds of thousands of commitments for new or rehabilitated housing units, already approved under the Section 8 and public housing programs. Some 300,000 of the 700,000 units now "in the pipeline" would be lost This loss comes at a time when the stock of affordable rental housing units is shrinking rapidly and almost one fifth of all construction workers are unemployed

- Rents for the 3 million families living in lower income housing would be sharply increased. The Administration will propose legislation to require tenants to pay their entire utility bills and to count food stamps as income. This could double or treble rents for many households. Rent increases would be phased in over five years (the present 10% cap on rent increases would be raised to 20%).

  These proposals hit hardest on very low income people, who receive the maximum food stamp allotments. Their rents would go up by at least 26% of the value of their food stamps In states where welfare grants are very low, families on welfare would have very little cash left after paying rent.

  The proposal that tenants pay the full cost of their utilities is even worse, particularly in cold climates or older, poorly insulated projects, where utility bills average well over $100 per month.

- Federal rent subsidies would be reduced by 15-20% in the Section 8 existing program and tenants would have to pay the extra costs out of their own pockets, along with the

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increased rents. It would be even harder for large households to find quarters.

This would be done under the "modified Section 8 existing program" by giving certificates that cover the difference between 30% of tenant income and a reduced fair market rent (about 15-20% below present levels because of changes in how it would be calculated) Tenants would then negotiate their own rents, paying less if they could find a place for less; paying the extra if they couldn't. Even with present fair market rents half of all households receiving Section 8 certificates are unable to find units within their alloted time period of sixty days.

There is no provision in this new voucher program to provide annual adjustments for rent increases. Expiring Section 8 existing contracts are to be converted to the new program.

- Some public housing projects would have to close. Services and maintenance would have to be curtailed in those remaining open Several thousand low income families living in public housing would be displaced because their homes would be demolished The level of operating subsidies for public housing is simply inadequate to maintain it: about two thirds of estimated need.

- Homeowners facing default would no longer receive housing counseling to assist them in retaining their homes. The housing counseling program would be ended.

- 150,000 families living in rent supplement projects would have no assurance, beyond five years, that they would receive housing assistance. Present rent supplement contracts would be converted to Section 8 existing subsidies.

- The rural housing programs of the Farmers Home Administration would be cut to one-third of their present level. They are to be virtually terminated in 1984.

In short, the budget proposals offer no hope to low income people: either to those now living in low income housing or to the hundreds of thousands more on the waiting lists. They must be rejected.

A BRIEF SUMMARY OF THE REAGAN HOUSING PROPOSALS

[Note: This material is reprinted, with permission, from a Special Memorandum on the 1983 budget of the Low Income Housing Information Service. For the full, 20-page summary, including tables on HUD and Farmers Home Programs and other budget cuts, send a self-addressed envelope (6x9 or larger) with 37 cents postage on it to LIHIS, 215 8th St, N.E., Washington, DC 20002.]

The budget proposals for the low income housing programs of the

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Department of Housing and Urban Development clearly have two objectives:

First, tenants are to bear the major burden of cutting housing outlays. This would be done primarily through redefining "income" for the purpose of calculating tenant contributions and by lowering the "fair market rents" on which the amount of the subsidy in existing units is based.

Second, funds already appropriated for additional low income housing are to be recaptured. This is to be done by (1) rescinding the 1982 appropriation for newly constructed or substantially rehabilitated units; (2) cancelling projects now "in the pipeline" for which subsidy commitments have been made; and (3) converting present long-term subsidy contracts, where possible, to short-term contracts with a reduced subsidy base. With the exception of 10,000 units for the elderly and 30,000 units for a new rental rehabilitation program, and some public housing modernization, all recaptured funds are either to be returned to the Treasury or used to convert present subsidies to shorter terms or lower amounts. Budget authority for low income housing to be rescinded totals $16.4 billion for 1982 and 1983 alone. Rescissions are projected to continue through 1986.

The rural housing programs of the Farmers Home Administration (FmHA) fare slightly better, sustaining a two-thirds cut in program level for 1983, but they are slated to be virtually terminated in 1984.

THE HUD HOUSING BUDGET

There isn't much future for HUD's housing programs under the budget proposals. The total number of households receiving housing assistance from HUD in 1987 will be almost half a million lower than it would be if we just had a moratorium on new commitments now, and let the existing stock remain and all units in the pipeline be built or occupied.

The HUD budget includes both rescissions of 1982 funds and proposals (mostly rescissions) for 1983. The cuts and program changes affect just about every HUD housing program.

President Reagan has requested rescission of the entire 1982 appropriation for new or rehabilitated assisted housing units, except for Section 202 and a few already committed Section 8 units. This amounts to $9.4 billion in budget authority. Also to be requested is rescission of $11.2 billion in budget authority for the rent supplement program, since 170,000 units now receiving rent supplements are to be converted to Section 8 existing.

On top of these rescissions, the Administration plans to recapture $10.4 billion from Section 8, public housing, and rent supplement funds appropriated in prior years These funds will be reused by HUD, but not, for the most part, to assist additional low income families. Instead, they will go to replace the cancelled long-term subsidy

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contracts with Section 8 existing certificates at a lower subsidy level than that program now provides.

The $9.4 billion rescission covering 1982 production was sent to Congress on February 10 Congress must approve the rescission within 45 days for it to take effect.

HUD's low income housing programs will be operating on recaptured funds for the next several years. This means that any additional units that are provided — say under Section 202 or the voucher program (called "modified Section 8 Existing" by HUD) — come from losses of housing subsidy somewhere else. Moreover, as the rescissions make clear, the proposal is to return a substantial amount of the recaptured funds to the Treasury.

This point cannot be overemphasized. The 1982 and 1983 rescissions and recaptures of HUD budget authority total 39 6 billion. THERE ARE NO NEW" OR ADDITIONAL UNITS IN THE HUD BUDGET WHATEVER HUD DOES IN 1982 AND 1983 WILL BE DONE WITH WHAT IS LEFT OVER FROM THE $40 BILLION IN RECAPTURES AFTER $16 BILLION OF IT IS RESCINDED.

Measured in budget authority, "savings" from HUD low income housing programs will total a whopping $83 billion by 1987.

SUBSIDIZED PROGRAM CHANGES. The Reagan budget ends new production and substantial rehabilitation under the Section 8 and public housing programs. Moderate rehabilitation would continue this year but not in 1983. Except for 5,000 units to be saved for helping public housing tenants displaced by demolition of their projects, the Section 8 existing program as we know it would end.

The 202 housing for the elderly and handicapped program would continue without rescission for 1982, and is proposed at a net, 9,000 unit level for 1983.

The Indian housing program would end, with only 150 units in 1982, and none thereafter.

The basic HUD subsidized housing program, starting in 1983, would be a voucher or "modified Section 8 existing" program. The HUD voucher would differ from the present Section 8 certificate in three major ways. First, it would be for a fixed amount, representing the difference between 30% of tenant income (including any food stamps) and the fair market rent for existing units in the area. A voucher holder finding a unit for less than the fair market rent would pay less than 30% of income; a voucher holder who couldn't find anything suitable without paying more than the fair market rent would have to pay more than 30% of income. Second, there would be no increase in the amount to reflect rising costs utilities etc Tenants would have to pay any annual rent increases out of their own pockets Third, it would be worth less than present Section 8 certificates because FMR's would be recalculated, and reduced by 15-20% Present Section 8 contracts (between HUD and the administering agency) would be modified when they expire.

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The other HUD housing program contained in the 1983 budget is a rental rehabilitation program. This program was described by a top HUD official, in an apparent slip of the tongue, as a "categorical block grant program". HUD would allocate $150 million to communities to pay half the cost of rehabilitating rental units, under very general program guidelines. Tenants presently living in the units, or wishing to do so, could get vouchers, and 30,000 have been set aside for this. The rental rehabilitation program replaces the "312" and Section 8 moderate rehab programs.

PUBLIC HOUSING Public housing operating subsidies are needed to cover the gap between income from tenant rents and the cost of operating projects. One of the major reasons for the poor condition of some public housing projects is that operating subsidies have been inadequate.

HUD uses a formula, the "Performance Funding System" or "PFS" to set the level of operating subsidies for each authority. The PFS has been criticized on several grounds: (1) it is almost incomprehensible; (2) it does not cover the full need; (3) it provides no incentives or reward for efficiency. At Congress' behest, HUD is now studying alternatives to PFS. Meanwhile, it is still in use.

The 1983 budget requests $1,075 million for operating subsidies. This is about two-thirds of the amount that would be needed for full PFS funding and $27 million less than actual 1981 operating subsidies, including the supplementals to cover the 1981 shortfall because of rising utility costs.

The level of operating subsidies, and the future of public housing, will be major issues this year. There is growing pressure to remove the 30% ceiling on tenant rents and to give local public housing agencies far more freedom to run their programs. Proposals vary from removing red tape to letting authorities set their own rents and income limits

The public housing modernization, or "comprehensive improvement" program will be continued, but no more than $1.8 billion in budget authority can be spent in 1982 or 1983. Moreover, housing authorities with new projects "in the pipeline" will be able to get modernization money only by cancelling those projects. In 1982, $1 billion of these recaptured funds can be reused on a dollar for dollar basis. Another billion is estimated to become available on a 50% recapture basis. Some $300 million will go to authorities without recaptured funds. In 1983, $1.3 billion of modernization money will come from recapturing $2.6 billion in new public housing. HUD will use $500 million of its "profits" on this transaction for modernization by other authorities, and the rest will be rescinded.

RENT SUPPLEMENTS. There are almost 160,000 units receiving assistance under HUD's rent supplement program, initiated in the 1960's. As costs have risen, the rent supplement, which is a fixed amount for a forty-year contract, has not been adequate to cover the

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full difference between 25% of tenant income and the cost of operating the project. So, rent supplement contracts have been amended. Several years ago, HUD started converting rent supplement contracts to Section 8, and there have been many rescissions of rent supplement funds as this has happened.

One major problem with this approach is that long-term contracts, which have thirty years or more to run, are replaced with shorter term Section 8 existing contracts. This provides a more adequate subsidy for the short run, but no assurance -- as federal housing programs are being dismantled -- that the projects will remain available for low income people.

HUD will obligate just about all of the 1982 money that remains after the rescission to convert 160,000 rent supplement units to Section 8 existing over a three-year period. Meanwhile, it will propose rescission of $2.8 billion in 1982 and again in 1983.

SECTION 236. The 536,000 units in the Section 236 program will have to get along with deep subsidy funds already available through recapture. These funds will run out by the end of 1983, and 236 projects needing additional deep subsidy funds thereafter will be converted to Section 8 existing.

Some 145,000 Section 236 units are now receiving Section 8 subsidies, mostly under the so-called loan management program, initiated when the fixed interest subsidy for Section 236 became inadequate, as a way of preventing default. Although Section 8 contracts provide for annual increases reflecting rising costs, these increases will be capped at 5%.

No new funds are proposed for the troubled projects program. However, $24 million is expected to become available through transfer from the fund in which excess Section 236 rents had been deposited during the early years of the program. With carry-over, HUD estimates that it will have funds to help 276 troubled projects in 1982 (128 of them getting their second year and 98 troubled projects in 1983. Except for projects given two-year commitments in 1981, all projects will receive funds for one year only.

OTHER HUD PROGRAMS. Housing counseling would be ended. Fair housing would have the 1982 cut in funds for fair housing assistance restored. Urban homesteading would get $12 million. $3 million of this will be used for a multifamily demonstration program, estimated to handle 15 buildings averaging 30 units each. The 312 rehabilitation program would stop, not even being able to relend loan repayments. There would be no more GNMA tandem funds to finance rental housing construction.

The community development and urban development action grant programs would be funded at their 1982 levels, well below 1981.

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RURAL HOUSING PROGRAMS -- THE FARMERS HOME BUDGET

The Farmers Home Administration (FmHA) is a major victim of the Administration's effort to cut back on federal credit programs. The OMB philosophy appears to be that a dollar lent is a dollar spent, even though it gets paid back eventually.

Therefore, the FmHA housing programs are cut by two-thirds in 1983. The total cut in FmHA lending activities for housing is $3 billion. This means a loss of over 60,000 subsidized units and another 12,000 moderate income, unsubsidized loans.

Under the Reagan budget, FmHA would be able to finance 20,000 loans under the 502 program for home ownership, about 6,000 very low income home repair grants, less than 6,000 rental housing units under the 515 program, and about 1000 farm labor housing units.

Deepest cuts come in the 502 and 515 programs. Some rural rental assistance is requested, but because many present contracts expire and need to be renewed, no additional units will receive rural rental assistance.

TAX EXPENDITURES

The largest housing expenditures in the budget have little to do with either HUD or FmHA. Instead, they are the "tax expenditures" resulting from housing-related income tax deductions. Each year, these are estimated and, in theory at least, Congress can regulate them.

Housing-related tax expenditures for 1983 are estimated to top $43 billion, with $38.5 billion of this going to home owners. There is a $5.9 billion increase from 1982 to 1983, and a $4.6 billion increase between 1981 and 1982.

Very little of this money goes to low and moderate income people who, even though they may be home owners, do not itemize their deductions. Most of it goes to people in the top 10% of the income distribution.

There are also some tax expenditures to aid in rental housing investment. But these are trivial compared to home owner deductions.

Finally, the 1983 tax expenditures include almost $3 billion as the cost of "all saver's certificates" -- an effort to help savings and loans caught in a bind by rising interest costs. This single item is almost five times as costly as the increase in HUD's low income housing payments. It is twice the amount needed for an adequate level of public housing operating subsidies.

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ECONOMIC AND OPERATIONAL IMPACT
ON THE PUBLIC HOUSING PROGRAM IN MONTGOMERY COUNTY, MARYLAND

: Reagan Administration has proposed a series of budget recommendations
- the Department of Housing and Urban Development's FY '83 budget that
ll result in nearly total abandonment of the national commitment to the
ovision of decent, affordable, and suitable living environments for low
d moderate income people.

ile these proposa s are far-reaching and affect nearly all of HUD's current
ograms, this discussion will focus on recommended changes in the Public Housing
ogram, and ts impact on the Housing Opportunities Commission of Montgomery
unty, Maryland.

will be evident in the discussion below, the consequences, if these proposals
enacted, will be devastating to the Commi ion operation. An impact
atement from each of the jurisdictions n the Washington metropol tan area
needed, however, to determine aggregate economical, social nd politica
olications of these recommendations In Montgomery County, the 5,500 people
siding in 1,038 public housing units are threatened by these proposals, as
ll as HOC's waiting st of over 9 500 households. Not only will we be unable
address the low-income housing needs of the 1980's, in all likelihood, we will
unable to continue to meet the shelter needs of our current resident population.

I. RECOMMENDATIONS FOR PUBLIC HOUSING PROGRAMS/IMPACT ON HOUSING OPPORTUNITIES COMMISSION

Topic: Public Housing Production

Recommendation: No funds requested for FY '83, with FY '82 funds appropriated proposed for recision.

Impact: A dramatic halt to housing production for low income families. Inability of HOC to address the housing needs of over 9 500 eligible applicants (on HOC s wa ting st) are obvious consequences. Montgomery County's apartment vacancy rate is consistently running below two per cent and approximately 11,600 rental units have been lost through condominium conversion over the last five years The County housing market, in general, is tight and expensive with the median home price at $87,848 in 1981. With the construction of rental units steadily declining, the absence of public hous ng production funds will translate into a trickle of units in 1983, and a complete cessation in 1984. Realization of our most optimistic projections will result in a mere 59 units of public housing in 1983-84, although these may also be subject to recision.

Topic: Public Housing Rent Determinations

Recommendation:

- Food stamps counted as income;
- Establishment of minimum rents equal to cost of utilities;

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- Rent computed on gross income;

- Rent to income ratio 30 per cent for new tenants with a phased-in escalation in rents. For current tenants over the next five years, a 27 per cent increase will occur in 1983 with a one per cent increase each year through 1986.

Impact: Preliminary calculations indicate that beginning in FY '83, HOC tenants would be faced with rent increases of up to ten per cent annually, the current mandated cap for annual rent increases. HUD has indicated that they will seek raising the cap on annual rent increases to 20 per cent. With rent increases this drastic, many low income households will choose, or be forced, to move. Rent delinquency rates will rise at a rapid pace along with massive evictions. Overcrowded conditions will prevail and a spill-over effect to substandard private housing in Montgomery County and adjoining jurisdictions can be expected.

Topic: Public Housing Operating Subsidies

Recommendations:

- Opposed to any add-on to 1982 appropriation bill, such as the $148 million intended to apply retroactively to 1981 operating subsidy requirements;

- 1983 appropriation level will be reduced based upon increased rental revenues resulting from changes in rent computation highlighted above;

- Reductions in the number of units under management attributable to

  o Deobligation of units in construction pipeline,

  o A deliberate policy of closing down the most expensive projects.

Impact: There are only two major sources of operating funds for HOC public housing - HUD operating subsidy payments and tenant rents. The proposal would reduce HUD operating subsidy to 97.9 per cent of PFS in 1982 and 38 per cent of PFS in 1986. For HOC, this translates to $765,942 in operating subsidies in 1982 and $335,474 in 1986. The proposed rise in tenant rents will not compensate for projected deficits through FY '86. Enactment of these proposals anticipates the following worst case scenarios for HOC and other PHA's:

- Critical cash flow problems leading to cut-off of utilities and other essential services;

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- Need for increased fiscal support from County government. This is not probable, in fact, current support levels are diminishing;

- Tenant Services Program will be cut back, resulting in higher caseloads and reduced levels of service;

- Massive reductions in HOC personnel and the inability to maintain properties in standard, liveable condition;

- Reduced rent rolls, vacant and vandalized units;

- Rent strikes, perhaps tenant riots resulting in irreparable damage to families and housing units;

- Litigation, bankruptcy and receivership of the Agency.

These are not over-dramatized statements, rather, they are real possibiliti

Topic: Public Housing Modernization (C.I.A.P.)

Recommendations: PHA's will be allowed to use 50 per cent of any funds now obligated in the public housing pre-construction pipeline for public housing modernization. It is expected that 75 per cent of the pipeline will be deobligated and the 50/50 rule applied to these funds. The other 50 per cent will be proposed for recision. Energy conservation will be a modernization priority.

Impact: Recaptures cannot be achieved rapidly enough in FY '82 to be used for funding modernization programs, and the legal restrictions on the use of recaptured funds would prevent its use in many areas. This proposal would require HUD to ask Congress for authority to reprogram the use of recaptured funds at the same time that it is requesting massive recision -- including a recision of authority specifically provided by Congress for modernization. HOC would stand to lose over $250,000 in modernization funds in 1984 under this proposal. Deferred maintenance would result in gradual deterioration of the inventory. The stereotype of public housing units would become a stark reality.

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HON. MICHAEL D. BARNES
OF MARYLAND
IN THE HOUSE OF REPRESENTATIVES

FEDERAL TAX REFORM URGED TO ASSIST RENTERS, RENTAL HOUSING

TAX LAWS FORCE LANDLORDS TO CONVERT TO CONDOMINIUMS

Mr. BARNES asked and was given permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

Mr. BARNES. Mr. Speaker, the Congressional Research Service at the Library of Congress recently completed a report which addresses the impact of the U.S. tax code on the trend to condominium conversions, and which offers some possible approaches to changing the tax laws to protect the Nation's dwindling supply of rental housing. The report was prepared in response to questions which I posed to CRS last year, and in view of the numerous requests that have been placed with my office, I would like to submit it for publication in the CONGRESSIONAL RECORD.

A major theme of the study is that the Federal tax laws are serving as an impetus away from renter status, and have helped create the strong demand for condominium conversions. It is becoming increasingly apparent that rental housing in this country is in serious trouble, as more units are converted to condominiums, with little or no construction of new apartment buildings underway in many areas.

Last November, for example, the U.S. General Accounting Office released a report entitled "Rental Housing: A National Problem That Needs Immediate Attention," which noted that millions of Americans are unable to find affordable rental housing. GAO undertook the study because of "increasing indications that the health of the Nation's rental housing market, an important source of shelter for a large segment of the American population, is rapidly deteriorating."

The Congress has a long-standing policy of encouraging homeownership by providing various tax benefits to the homeowner—a policy that I support, especially in light of the effect of today's economic conditions on the housing industry. But in view of that commitment to homeowners, and in light of the growing difficulties facing renters and landlords, it seems in order for a review of our past assumptions in tax policy toward rental housing.

The Federal tax structure is a contributing factor in the decline of rental housing in this country, and Congress needs to take steps to redress the imbalance which weighs in so heavily against the renter and the landlord. It could start by providing tax incentives to stimulate construction of new rental housing, and by providing more favorable tax treatment for renters and landlords alike—especially measures designed to encourage landlords to "stay in the business" and not sell out to converters. I have written to the distinguished chairman of the House Ways and Means Committee, the gentleman from Oregon (Mr. ULLMAN), urging that the committee take a leadership role in addressing this pressing national issue.

If we fail to make rental housing an attractive private investment today, displacement of senior citizens and lower- and moderate-income persons will continue, and the ultimate social and financial costs to the American people could be enormous.

I also include for the RECORD a recent New York Times article on the Congressional Research Service report:

From The New York Times, Mar. 30, 1980

PROPOSALS CHANGING TO CONDOMINIUMS

(By B. Richard Bernstein, analyst in housing, Economics Division, March 28, 1980)

CONDOMINIUMS

In a 1979 U.S. Senate Hearing, condominiums were described as "the housing phenomenon of the decade." One aspect of this phenomenon in particular, the conversion, is attracting increasing attention because of the impact its sudden appearance and rapid growth are having on an already short supply of moderate-priced rental units. While there are said to be a number of social benefits connected with this process, it has become a politically sensitive issue, since the interests and needs of low and moderate income tenants are often set against middle income households looking to buy an affordable first home.

Almost in minor image of the economic structure of conversions have been the financial difficulties of the rental industry. Since tax laws are such an integral part of real estate activity, it is natural that those seeking to understand conversion and rental housing development should turn their attention to the Federal tax code. This report first examines the role Federal tax laws play in encouraging condominium conversions and consequently, how they are related to the difficulties in rental housing. It also dis-

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cusses some possible changes in the laws that would address the above concerns.

It is stressed that the discussion here is exploratory in nature; the selection and discussion of options to discourage conversion do not constitute advocacy of either the purpose or the devices of conversion disincentive.

II. ARE FEDERAL TAX POLICIES ENCOURAGING THE TREND TOWARDS CONDOMINIUM CONVERSION? IF SO, WHICH POLICIES?

It has long been Federal policy to encourage homeownership and the current tax laws reflect this objective. The tax laws now provide strong financial incentives for middle and upper-income households to purchase all types of housing, including condominium conversions. There is a particular incentive to purchase in inflationary times since mortgages are repaid in "cheaper dollars." More and more people are buying as much housing as financially possible, not so much for shelter purposes, but for the tax savings and as an inflation hedge.

Relative to the generous tax benefit package offered to homeowners, renters do not fare well. There are no housing-related tax deductions for tenants and the capital gains advantages are not applicable. While some investor-oriented tax benefits are available to owners of apartment buildings, and these presumably work their way through to tenants, they are overwhelmed by those available to households in owner-occupied housing. This imbalance in tax benefits is a major impetus to homeownership (and away from renter status) and has helped to create a strong demand for condo conversions.

A. Tax provisions available to the homeowner

The most important of the tax provisions encouraging homeownership are as follows:

1. The deductibility of all mortgage interest and property tax payments from income (and where applicable, from the State and local income tax base). The Treasury has estimated that these deductions will cost the Federal government about $19 billion in fiscal year 1980.[1]

TABLE 1.—ESTIMATED REVENUE LOSS TO FEDERAL GOVERNMENT

[In millions of dollars]

	Fiscal years—		
	1979	1980	1981
Deductibility of mortgage interest on owner-occupied homes	10,745	12,865	14,700
Deductibility of property tax on owner-occupied homes	6,700	7,745	8,975
Deferral of capital gains on home sales	1,125	1,080	1,111
Exclusion of capital gains at death	NA	NA	NA
Exclusion of capital gains on home sales for persons aged 55 and over	225	630	630

NA—not available.

Source: Special Analyses, Budget of the United States Government, Fiscal Year 1981, Office of the President.

2. The tax-free imputed income from owner-occupied housing. Owners in effect, rent to themselves but are not required to report or pay tax on this derived value, even though they are allowed to deduct the "offsetting expenses" of interest and taxes listed above.

3. The relatively low capital gains rate (see details below).[2]

4. The deferral of capital gains on the sale of a residence if another, more expensive house is purchased within 18 months (or in tax language, if the gain is "rolled over" into another house).

5. The one-time exclusion from tax of up to $100,000 of capital gains from the sale of a principal residence by a taxpayer aged 55 or older, or the total exclusion of all gain if the house is held until the death of the owner.

Footnotes at end of article.

These tax provisions are available to all owners of housing, not just to owners of conversions. For example, the amount of property taxes paid to local governments is deductible from federally taxable income whether the property taxes are paid on a single-family detached residence, an inner-city row house, or a high-rise condominium.

B. Inflation, progressive tax rates and the increasing incentive to purchase housing

The tax deductions that the government offers to homeowners become more valuable as both inflation and real increases in income push people into higher tax brackets.[3]

For example, in the absence of tax deductions,[4] the family which earned $31,000 in 1979 and will earn $33,800 in 1980, will move from paying 34% of the top part of their income to 39%, even though the increase in income only reflects 1979 inflation. Thus, the ability to deduct expenses from gross income becomes more important as incomes rise, even when they do not rise in real terms. Of course, the greater the income increase, the greater the potential tax savings. For example, if one's taxable income is $34,000, a $1,000 deduction would reduce the amount of tax otherwise due by about $390. If the income were $54,000, the $1,000 deduction would cut taxes by about $570.

TABLE 2.—FEDERAL INCOME TAX RATES, EFFECTIVE JAN. 1, 1979

Taxable income	Tax on col. 1	Excess over col. 1 (percent)
Unmarried individuals:		
0 to $2,300	No tax	
2,300		14
3,400	$154	16
4,400	314	18
6,500	692	[illegible]
8,500	1,072	[illegible]
10,800	[illegible]	[illegible]
12,900	[illegible]	[illegible]
15,000	[illegible]	[illegible]
18,200	[illegible]	[illegible]
23,500	[illegible]	[illegible]
28,800	[illegible]	[illegible]
34,100	[illegible]	[illegible]
41,500	[illegible]	[illegible]
55,300	[illegible]	[illegible]
81,800	27,677	[illegible]
108,300	[illegible]	70
Married individuals filing joint returns:		
0 to $3,400	No tax	
3,400		14
5,500	$294	[illegible]
7,600	630	[illegible]
11,900	1,404	[illegible]
16,000	[illegible]	[illegible]
20,200	[illegible]	[illegible]
24,600	[illegible]	[illegible]
29,900	[illegible]	[illegible]
35,200	[illegible]	[illegible]
45,800	[illegible]	[illegible]
60,000	[illegible]	[illegible]
85,600	[illegible]	[illegible]
109,400	47,544	[illegible]
162,400	[illegible]	[illegible]
215,400	117,804	70

Another way to look at the effects of a progressive rate income tax (Table 2) is to consider the taxpayer in the 28% marginal tax bracket. In this case the Federal Government forgives taxes owed equal to about 28% of the annual mortgage interest. A 12% interest rate on a mortgage thus becomes an 8.64% loan when tax-savings are considered. If, as a result of either inflation or real income gains over the years, this taxpayer is elevated to the 40% tax bracket, the fixed 12% mortgage rate would then be reduced to an effective 7.2%.

C. Capital gains provision and the incentive to purchase housing

Certainly one of the major benefits to homeowners in recent years has been the increase in the value of their homes. A recent paper by the National Bureau of Economic Research states, "While inflation may be public enemy one for many Americans, most homeowners have reaped enormous benefits from inflation during the past decade and a half and will likely continue to do so in the future."[5]

The capital gains tax provisions have been very advantageous to homeowners and were made even more so in 1978. Many homeowners are able to postpone or completely avoid paying capital gains taxes by rolling over the gains until age 55 or holding the house until death. However, even where capital gains taxes must be paid, the rates are relatively low. Before 1978, 50% of capital gains were exempted from taxation and the other 50% was taxed as ordinary income. In 1978, the amount exempted was increased to 60%. Consider a person who bought a house for $40,000 and sold it for $70,000 five years later. Assuming he did not buy another more expensive house, 60% of the $30,000 gain was tax-exempt and the remaining 40% or $12,000 was taxed as ordinary income. For the taxpayer in the 40% tax bracket, the tax comes to $4,800 or about 16% of the $30,000 gain.

The $100,000 exclusion is a new provision added in 1978 to help and encourage older homeowners, particularly those whose children no longer live with them, to sell their larger homes and move into smaller and less expensive homes or apartments. Previous to the exclusion, many elderly homeowners, for whom home equity was the major source of wealth, chose to remain in overlarge homes rather than sacrifice their "retirement income" to taxes. Early reports are that large numbers of homeowners are taking advantage of this new law.[6] In fact, this may be encouraging a large number of condominium conversion purchases by middle and upper income elderly.

Finally, in late 1979, the Congress took action to block a 1976 Tax Reform Act provision that was about to go into effect. Implementation of the "carryover" provision would have increased the capital gains taxes paid by many heirs. For example, consider the homeowner who originally bought a $20,000 house and over the years traded up to a $90,000 house. The accrued capital gains had not been taxed over these years. Before 1976, a person who inherited this $90,000 house did so at the $90,000 "stepped-up" value, and if he later sold the house for, say $100,000, there would only be $10,000 of capital gains subject to tax. The 1976 reform would have captured the postponed capital gains tax by requiring that this house be inherited at its $20,000 basis value. If the inheritor sold it for $100,000, there would be a tax due on $80,000 of capital gains. As noted, in late 1979, both houses of Congress agreed by large margins to add a carryover repeal amendment to H.R. 3919, the Windfall Profits Tax Bill (which is expected to be passed by the Congress in April and become law shortly thereafter).

D. Tax laws encourage the purchase of all housing: Then why the rush to condominium conversions?

The principal concern of this paper is whether Federal tax laws encourage conversions. Clearly, the tax laws encourage all homeownership, but the tax laws are only part of the reason for the conversion phenomenon.[7] Other factors can be separated into two parts. The first group—demographics, price, and location—has little to do with taxes. The second has to do with the financial problems affecting a growing part of the rental housing industry.

1. The Buyer's Perspective

a. Favorable Demographics. Partly because of the "baby boom" of the 1950's, more new households are forming each year than there are new housing units being built, and this phenomenon is expected to continue into the late 1980's. Because of the rapid increase in

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the number of households made up of young singles, childless couples, divorced individuals or elderly, much of the current demand is for relatively small, low maintenance housing. Were it not for the generous homeownership tax incentives, many of these households might be renters.

b. Relatively Low Price. Young people, divorced individuals, one-income households, and other groups often can't afford or don't want a $100,000 detached house. For them, condominium conversions are a new supply of often well-constructed, moderate priced housing; and, of course, these "apartment" homes come with the valuable tax-benefits.

c. Location. Rising gasoline costs have tended to increase the desirability of "downtown" relative to suburban and exurban locations because they are usually more convenient to job and cultural centers, shopping and public transportation. As always, there is a desire for prestigious neighborhoods, views, ocean, lake or river frontage, high ceilings, exposed brick, and other qualities sometimes found in older, convertible buildings. Thus, homebuyers are often willing to pay more than they would as renters and do with less space than they might find in the suburbs in order to acquire these desirable features.

2. The Landlord's Perspective

Landlords are increasingly willing to sell their buildings because their buildings are worth more as owner-occupied units than as rentals. The imbalance in the tax benefits going to homeowners compared to tenants goes a long way in explaining the increasing financial plight of the rental housing industry.[2] Homeowner tax-benefits in effect lure away the best part of the landlord's market: the tenants who could afford to pay the higher rents needed to cover increased operating costs. As soon as most renters reach a certain financial threshold, the tax savings and appreciation potential make ownership less expensive than continued renting. While the Federal Government provides direct housing assistance to some low and moderate income households through its public housing and Section 8 programs, the private sector rental industry is largely left with serving the remaining low and middle-income households. The median income of renters inside SMSA's in 1977 was $9,500, while for those in owner-occupied housing, it was $17,500.

In recent years the operating cost of rental housing, like all other housing, has increased rapidly. Whether there has been rent control or not, rent levels have lagged behind increases in the general inflation rate (Table 4). Landlords must draw upon the low incomes of those remaining in the renter pool for their operating costs and a reasonable return on their invested capital. As a result, no matter how low the rental vacancy rate becomes, landlords are limited in what they can reasonably expect to receive in rents.

TABLE 3.—INCOMES OF OWNERS AND RENTERS INSIDE STANDARD METROPOLITAN STATISTICAL AREAS

	1973	1977	Percent change 1973-77
Owner-occupied units	$12,700	$17,500	38
Renter-occupied units	7,700	9,500	23
Median rent	141	183	30

Source: Annual Housing Surveys, 1973 and 1977, U.S. Department of Commerce.

Footnotes at end of article.

TABLE 4.—PRICE INDICES FOR SELECTED ITEMS

[1967=100]

	Residential rents	All items	Fuel and oil	Gas and electricity
1976	118.1	116.3	139.1	167.3
1977	124.3	125.1	158.9	195.4
1978	163.5	181.5	205.4	211.4
1979	161.8	194.4	295.3	232.6
1979	179.0	223.4	461.6	276.1

Source: U.S. Bureau of Labor Statistics.

While ownership housing is valued on the basis of comparable sales, rental housing is largely based on its earnings capacity. As noted, this capacity is severely limited by the relatively low incomes of tenants. Thus, much of the rental housing values remain depressed, particularly when compared to the upward pressures on ownership housing.[3]

This is where condominium conversions enter the picture. Since there is such a demand for moderate-priced ownership housing, some rental buildings with especially desirable qualities have now acquired an alternative future. For example, a landlord's rental building may be assessed at $25,000 per unit. Yet, with modest upgrading, such as a new kitchen, carpets, and interior paint, or even "as is," an individual buyer may pay $50,000 to $55,000 for this unit as a condominium. It is this large gap between the value of units as rentals and as ownership housing that has created the conversion phenomenon. The landlord is pushed by inadequate rent levels and pulled by the demand for ownership housing towards the conversion option.

There are some tax provisions, particularly accelerated depreciation allowances, that are of value to the landlord or to those considering building new rental units. For used residential rental property, the accelerated depreciation rate used is equivalent to about 125 percent of the rate allowed under the straight-line method.[4] For new residential rental property, a rate approximately equal to 200 percent of straight-line is allowed. While these allowances along with other provisions, such as subsidized interest rates, may be a deciding factor in the building of some rental units today, the tax benefits available to current landlords are generally inconsequential when compared to the gain to be made from converting.

TABLE 5.—ESTIMATED REVENUE LOSS TO FEDERAL GOVERNMENT FROM DEPRECIATION OF RENTAL HOUSING

[In millions of dollars]

	Fiscal year—		
	1979	1980	1981
Depreciation on rental housing in excess of straight-line	280	295	295

Source: See table 1.

B. Summary

The intersection of inflation and generous Federal tax benefits to homeowners has created a strong demand for all housing and encouraged most tenants who can afford it to buy. The relatively low price, good location, and small size of the units has directed many homebuyers toward condominium conversions. The limited earnings capacity of many rental buildings and the high prices homebuyers are willing to pay for many former rental units has induced many landlords to go the conversion route.

II. DO FEDERAL TAX LAWS MAKE IT MORE ATTRACTIVE FOR AN OUTSIDE DEVELOPER TO PURCHASE AND CONVERT A RENTAL UNIT, AS OPPOSED TO THE EXISTING OWNER OF THE RENTAL BUILDING?

There may be certain circumstances, under which the landlord can do the conversion: In general, however, tax laws make it more attractive for the owner of a rental building to sell to a developer than to convert the units himself. One recent article explained the landlord's option this way:

"He wants to continue to utilize the tax benefits remaining in the property as long as possible for the greatest possible net return while retaining long-term capital gains treatment. The availability of capital gains treatment depends on the owner's status at the time of the conversion. If he remains an "investor," the status he enjoyed as a property owner, he will receive capital gains treatment; but if his involvement in selling the condominium has made him a "dealer", then he will be required to recognize his profits as ordinary income . . . The general consensus is that to maximize the probability of capital gains treatment the owner should divest himself of the property before the conversion plans are more than a glimmer in his eye."[5]

In other words, if the landlord himself gets too involved in the business of converting (renovating, marketing, and financing for resale), his profits, especially his capital gains, will probably be taxed as ordinary income, just as any other business. If he is merely disposing of a capital asset, taxes would be lower through the special treatment of capital gains.

Thus, firms specializing in condo conversions have emerged to act as middlemen. These developers buy the building "wholesale" and sell units "retail", with various economies of scale leading to a reduction of costs for legal services, title searches, and other settlement procedures. Real estate commissions paid by these firms, for example, are often 1½ % instead of the more common 6-7 % for other types of housing sales. While developers do not qualify for the special gains treatment on their sales, there are many examples of large profits made from the purchase of a rental building and the rapid resale of the individual units.[6] In fact, this field has become sufficiently lucrative to give rise to a number of national firms, such as the giant Invesco Corporation of Chicago, that are purchasing prime apartment complexes in major cities for future conversion. Similarly, many of the new apartments being built today are being designed with a view towards future conversion, generally as soon as the benefits of accelerated depreciation have been maximized.

III. WHAT CHANGES IN THE TAX CODE WOULD MAKE OWNERSHIP OF RENTAL PROPERTY MORE PROFITABLE?

There is general agreement that with the exception of luxury rentals, most new apartment buildings will not be sufficiently profitable to be worthwhile to developers unless they receive government assistance. In some cases, subsidized mortgage interest rates are sufficient inducement to build, but often government commitments to provide rent support to tenants are also necessary. In effect, the future profitability of rental housing depends on strengthening the middle-income segment of the market.

Changes in the tax code could make rental property more profitable if they eased the current imbalance in tax assistance provided

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to owners and renters. There are basically two ways to cure this imbalance: Increase the benefits for renters and landors, and/or decrease the benefits to homeowners.

A. Increasing benefits for renters

The Federal Government could offer a tax credit or tax rebate to tenants. (A deduction would be less appropriate since most renters either take the standard deduction or have relatively low marginal tax rates.) At some level, this tax credit would make a person financially indifferent or neutral towards renting or owning. Such a parity-level credit would have to reduce a renter's housing costs as much proportionately as that of a homeowner with a similar income. To determine the parity-level of this tax credit would, in practice, be very difficult, requiring consideration of the average homeowner's marginal tax rate, the proportion of housing costs consisting of deductible mortgage interest and property taxes, and the average annual value of the various housing-related capital gains provisions. To further complicate matters, many existing homeowners are like most renters in that they take the standard deduction instead of itemizing their deductions.

A long standing suggestion of much less magnitude than full parity has been to allow renters a deduction or credit equivalent to the amount of property tax included in their rent payment.[1]

A renter tax credit could be structured in any number of ways: It could be based on the size of the rental unit. Credits could be limited to certain tenants, based on some measure of need. However, in the absence of corresponding limits for homeowners, income related limits on renters would not alter the current imbalance.

B. Increasing benefits for landlords

While direct assistance to tenants would improve the profitability of rental operations, assistance to landlords could do the same thing. Either way, improved profitability might lessen the incentive to convert to condominiums and might increase the number of new rental units being constructed.

Landlords could be treated in the same manner as owner-occupiers: allow deductions from "other income" for mortgage interest and property taxes while not counting rent receipts as taxable income.[2] This would grant a major tax benefit to landlords as opposed to other businessmen, thus creating a different tax imbalance. The imbalance within housing markets would tend to be corrected, however.

Of lesser magnitude, the income tax on the net profit from residential rental operations could be lowered or eliminated either for all landlords or perhaps only for those whose average rents were below a specified level. Alternatively, there could be a tax credit or rebate to the landlord based on the number of occupied rental units with average rents below a specified level. As long as there is any limit on assistance based on the rents charged, or the profitability allowed, however, the income-related tax "tilt" toward homeownership would continue.

To further stimulate rental construction, more rapid depreciation schedules could be adopted for new apartment construction.[3]

The above approaches—assistance provided directly to the landlord—might raise questions as to how much of these benefits would be passed on to the tenants. It must be remembered however, that the general thrust is to increase the profitability of rental operations. This should encourage construction, which in turn should result in more rent-level competition. Some would make the case that if the current tax bias against rental housing were removed, competitive market forces would eventually produce favorable results for both tenants and landlords.

C. Decreasing benefits for homeowners

As the tax laws now operate, there are no limits on the amount of mortgage interest and property taxes that can be deducted from taxable income. An obvious option to lessen the imbalance between owners and renters would be to limit either or both of these annual deductions on owner-occupied housing. For example, a $10,000 annual limit would support the interest and property taxes on a home valued up to about $100,000, assuming a 20 percent equity and a 30 year mortgage at 12 percent. Alternatively, one could change the current deductions to tax credits (say 25 percent).[4] Both of these changes would reduce the relatively greater benefits given to upper-income homeowners and would tend to lessen demand for and the building of relatively high-priced housing.

One could break with present incentives by adopting a tax credit schedule for mortgage interest that provided declining assistance to those with larger mortgages and/or interest charges. Consider the following table.

TABLE 6.—HOMEOWNERS MORTGAGE ASSISTANCE PLAN

[Maximum tax credit per house]

	Tax credit (percent)	Hypothetical mortgage loan savings	Percent[1]
Annual interest paid:			
0 to 1,000	40	1,000	7.1
Next $3,000	30	2,000	7.7
Next $5,000	20	2,500	6.5
Over $10,000	0		

[1] Minimum effective after-tax interest rate on a 12 percent mortgage.

Under this approach, the maximum savings per house from mortgage interest deductions would be $6,100. It would bring the effective mortgage interest rate down to 7.5% on the part of the principal which accounts for the first $4,000 of annual mortgage interest paid. In the short run, such a mortgage assistance plan might increase the demand for moderate priced housing, including condominium conversions. Alternatively, it could create an incentive to make larger down payments on the more expensive houses, thus lessening demand for large mortgages and relieving some capital markets pressure. In the longer run, the increased relative assistance provided for the purchase of moderate priced housing would stimulate the supply and provide more options for those now buying conversions.

D. Changes in the capital gains provisions?

Some housing analysts would argue that any meaningful effort to lessen the inequality in the tax treatment of owners and renters must include a higher capital gains tax on housing. The ability to amass large amounts of lightly taxed or untaxed capital gains is a major reason why many people are purposely buying the most housing they can. Indeed, the expectation of large gains adds a speculative component to housing demand that fuels price increases that creating larger gains for sellers. Such a process could continue so long as housing appreciates at a more rapid rate than inflation. Thus, changing capital gains laws could help reduce the speculative demand for ownership and perhaps increase the market for rentals.

Capital gains tax changes that would lessen the current incentives to "over-consume" housing and which might thus help rental markets are listed below.

1. Limit the tax-free capital gains rollover on the sale of a home. For example, make 20% of these gains subject to tax as ordinary income, perhaps spreading the taxable gains over several years (and increasing the basis value accordingly).

2. Retain the carryover basis value for inheritors, or tax housing capital gains at death (a partial recapture of lifetime benefits).

IV. WHAT CHANGES IN THE TAX CODE WOULD ENCOURAGE CONVERSION OF RENTAL PROPERTY TO CONDOMINIUMS?

Clearly, any income support or housing assistance provided to tenants, no matter what form it took, what it was called, or what rationale was given, would increase the landlord's ability to earn a return on their capital sufficient to induce him to stay in business as a landlord. Higher earnings would increase the rental value of their buildings and to some extent close the gap between the apartment values as rentals and as condos. This might save some rental buildings from deferred maintenance, abandonment, and arson. It might even save some buildings at the margin from converting. However, it is doubtful that such income support to tenants would prevent the most desirable rental buildings from converting without something approaching tax parity with homeowners. The combination of rapid appreciation and tax deductions to homeowners would require very large rent supplements to be offset.

A. Selective denial of tax deductions

This leads to the questions of whether some of the important tax deductions available to homebuyers could be selectively denied to those purchasing converted rental units. Selective tax benefits such as depreciation allowances for landlords are now given, depending on whether the housing is new or existing, or whether or not it serves low income tenants. Removing long-standing tax benefits for a particular type of housing could pose legal problems. However, several tax specialists are of the opinion that the selective denials would stand up as long as they were not "arbitrary" and did not involve a "taking of property."[5]

There are a variety of ways in which mortgage interest deductions on loans having to do with the purchase of a converted unit could be limited or removed. The deduction might be eliminated only on those buildings where the average unit sales price was below a specified level or only a converted unit whose tenant was over 65, disabled, or who had a low or moderate income. This would tend to lower the salability of units converted from lower-rent buildings. (See below for comments on providing offsetting assistance to landlords).

Conditional Approval

A more comprehensive approach might be either to approve or deny mortgage interest deductions (at the time a rental building applies to convert) on a building by building basis depending upon whether certain conditions are met by the developer (certified perhaps by the local government). Some combination of these provisions might include:

1. Elderly, handicapped, and low and moderate income tenants are allowed to remain in their units, as renters for some number of years.

2. Alternative housing within a certain distance is located for other upscaled tenants, moving expenses are provided, and adequate time is given for the move.

At the same time, however, one might want to provide some offsetting assistance to the landlord/developer such as a guaranteed Section 8 program for those units where protected tenants remain. One might allow investors to purchase these units with an agreement that the tenants would be allowed

Footnotes at end of article.

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to stay in the unit for a specified period during which the government would provide Section 8 funds.

Requirements for tenant protection could then be combined with the use of Section 8 rental assistance, Community Development Block Grant funds, and other State or Federal programs, and could form the basis of a "plan" for addressing conversion-related problems. Such plans could be individually tailored to meet local conditions. Depending on the various requirements or aid funds used, approval could be required from the local government, HUD, and the U.S. Treasury. In the event a particular conversion is not approved, the developer or sales agent selling the units in this building could be required to have the purchasers sign an acknowledgement that no Federal deductions for mortgage interest would be allowed, perhaps as part of the disclosure required under the Real Estate Settlement Procedures Act. For enforcement purposes, it would be necessary for the developer to send a copy to the necessary taxing authorities.

B. Sales or transfer taxes on converted units

Some local and State governments have considered a sales, transfer, or "excess profits" tax (on rental-to-condominium sales but not on condominium resales) to both discourage sales and raise revenue for housing assistance programs. The Federal Government could encourage or impose such a tax or require it wherever federally-related financial institutions are involved in the sales. Clearly, at some level, such a tax would discourage sales. If assessed at the local or State level, it would in effect be recapturing some of the expected Federal income tax benefits.

C. Alternatives to conversion displacement other than through the tax laws

There are a number of other approaches to conversion displacement that do not involve changes in the tax laws. Although there will not be discussed in this paper, several are briefly mentioned below so that they might be compared and contrasted with the tax change options presented.

Tenant Association Conversion

HUD is now working on technical assistance and "how to" guidebooks for tenants associations and non-profit sponsors who are interested in buying a building and converting it to condominiums or cooperatives. Tenant association conversions might result in lower costs than developer conversions, and have the potential for reducing displacement. HUD is also studying possible changes in housing laws, programs, and regulations that would facilitate these types of conversions.

Purchase Assistance for Individual Tenants

HUD, several Congressional committees, and housing groups are considering ways in which the Federal Government could assist certain tenants facing conversion to purchase their unit. One of these approaches is a "shared equity" concept in which the government would pay a part of the tenant's monthly purchase cost and would in return be entitled to a share of the future equity in the home when it was sold or the owner died. Assuming continuing high rates of housing appreciation the government's share would presumably recapture most, all, or even more than all of the past subsidy.

A currently available program assisting tenants is the Section 235 program. The Housing and Community Development Amendments of 1978 (P.L. 95-128) changed the Section 235 low- and moderate-income homeownership assistance program to the effect that:

"The Secretary shall give preference to low-income families who, without such assistance, would be likely to be involuntarily displaced (including those who would be likely to be displaced from rental units which are to be converted into a condominium project or a cooperative project). Such assistance may include the acquisition of a condominium or a membership in a cooperative association."

HUD's FY 1981 Budget recommends mortgage interest subsidies for 5,000 low-income families affected by condominium conversions.

Along those lines, HUD recently announced an experimental program wit Montgomery County, Md. in which HUD will:

First, subsidize interest rates on condominium mortgages for moderate-income tenants whose apartments are being converted. Tenants will have to pay principal and interest as if the loan were written at 4% and HUD will pay the difference between that rate and the market rate. At current rates, the savings for a typical family would be about $3,500 a year.

Second, subsidize, with some help from the county, a part of the tenant's monthly condominium payments.

Third, insure condominium mortgages jointly with Montgomery County to make it easier for low- and moderate-income tenants to secure loans.

FOOTNOTES

[1] The $19 billion is less than the $12.5 and $7.7 billion figures in Table 1 because if both were deleted fewer taxpayers would itemize deductions.

[2] Generally, capital gains is the "profit" made on the sale or the difference between the sale price, and the owner's cost plus any excess depreciation deductions taken over the years.

[3] It is assumed throughout this report that new or recent homeowners itemized their deductions. While this is a reasonable assumption, many longtime owners with small interest charges take the standard deduction.

[4] In the past those have been periodic tax cuts that have largely offset the effect of a mild inflation. While additional tax cuts can be expected, they may lag considerably behind a rapid inflation rate.

[5] Patric H. Hendershott and Sheng Cheng Hu, "Inflation and the Benefits from Owner-occupied Housing", National Bureau of Economic Research, August, 1979.

[6] A Tax-Exempt Bonanza. Older Homeowners cash in on their $100,000 Exclusion, Washington Post, February 7, 1980.

[7] Estimates are that there were no more than a few thousand conversions in 1976; 48,000 in 1977; 86,000 in 1978; and 145,000 in 1979. "Undocumented Boom Revisited: Conversion Growth Exceeded Expectations", U.S. Housing Markets, February 1, 1980.

[8] See GAO Report to the Congress, Rental Housing: A National Problem That Needs Immediate Attention, November 8, 1979.

[9] One could conclude, in general, that housing values follow the interest of those who occupy them.

[10] The annual depreciation deduction for an asset is computed on the basis of its cost (less any land value) and estimated useful life. For example, if a building has an estimated useful life of 30 years, its annual rate of depreciation under the straight-line method is 100 (which represents 100% depreciation) divided by 30 years, or 4%.

[11] The Creative Art of Condominium Conversions, by Dennis M. Richardson, Real Estate Review, Summer, 1980, p. 55-6.

[12] A typical example is a 270 unit garden rental complex in Houston bought for $7.5 million, $2.5 million of renovation was done and within 2 years, the sale of these units had brought in $14 million. A one-bedroom/den unit of 800 sq. ft. had brought in $600 of rent (the owner paid utilities). This unit was bought for $25 per sq. ft. ($20,000) and sold for $41 (or $33,000). See Builder Magazine, May 21, 1979, p. 62-63.

[13] For example, H.R. 6883, introduced December 20, 1979, would allow individuals meeting their principal residence a deduction equal to 10 percent of the rent, not to exceed $600 ($1200 for a joint return). H.R. 6883, introduced February 6, 1980, would provide substantially more assistance. It would allow a deduction to tenants for their proportionate share of the taxes and interest paid by their landlords.

[14] Under this approach, landlords would not be allowed a depreciation allowance or a deduction for operating costs (electricity, cleaning, painting, etc.) since these are not allowed homeowners.

[15] H.R. 6804, the "Rental Construction Incentive Tax Act of 1980", would amend the Internal Revenue Code of 1954 to exempt low-income housing and certain other rental housing from the requirement to amortize construction period interest and taxes, to reduce from 10 to 5 years the amortization period for other residential rental housing, to allow straight line depreciation over 15 years for certain new residential rental housing, and for other purposes.

[16] An Urban Institute paper that studied the substitution of a 30 percent tax credit for the present system of mortgage interest and concluded that this could increase the equity of the tax system, provide a boost to the construction industry, and improve the quality of housing for lower-to-middle income households. Homeowner Income Tax Provisions and Metropolitan Housing Markets, an Urban Institute Paper by Michael W. Anderson and G. Duncan Maclean, will be published in the spring of 1980. The Urban Institute Policy and Research Report, Vol. 9 No. 2, Winter 1979.

See also a new Congressional Budget Office report, Housing the Federal Budget: Strategies and Examples, February, 1980, for estimates and revenue estimates for a 10,000 mortgage interest deduction limit and a 15 percent credit instead of the current deduction, pp. 97-99.

[17] Congressional Research Service Tax Analysts Robert Ujvatis and Linnie Mimms.

[From the New York Times, Apr. 6, 1980]

TAX LAWS FOSTER FEDERAL LOSSLEADER TO CONVERT TO CONDOMINIUMS

(By Ben A. Franklin)

Washington, April 5.—A new Congressional study of the nation's declining supply of rental units concludes that Federal tax laws are helping to drive landlords to convert apartments into more profitable condominiums.

The report, by the Congressional Research Service of the Library of Congress, says that the long-standing tax policy that rewards individual home ownership with income tax deductions is forcing landlords out of a money-losing rental market. At the same time, it says, Federal tax policy offers advantages to both buyers and sellers of condominium conversions.

The report was prepared at the request of Representative Michael D. Barnes, a freshman Democrat from the Maryland suburbs of Washington. There, an estimated 10 to 12 percent of the rental housing stock has been converted to condominiums in five years, driving rents up and taking adequate housing beyond the reach of many people. Both the District of Columbia and Montgomery County, Md., Mr. Barnes's constituency, have put temporary "emergency" conversion freezes into effect.

But nationally, according to the report, 145,000 rental units were converted to ownership status in 1979. The Department of Housing and Urban Development has reported that 10 years ago, more than 80 percent of the nation's present two million

condominium units were rentals or were not yet built.

Representative Barnes is now urging tax changes that, he said today, would "protect the nation's sagging supply of rental housing." Similar proposals by, among others, Representative Benjamin S. Rosenthal, Democrat of Queens, have failed.

To deter what it calls "the overconsumption" of owned housing as a tax shelter, the report recommends tax credits for tenants, increased tax incentives for landlords and sharply decreased tax breaks for middle- and upper-income homeowners.

The last two proposals are so politically unpopular in Congress that the notion that property tax reform can be a controlling factor in housing policy is regarded as hopeless by many here. But so is the alternative, of greatly increased Federal subsidies to low- and middle-income renters.

Last November a report by the General Accounting Office, another Congressional research arm, said rental housing was at the "crisis stage" but concluded that the need for Federal assistance to renters far outstripped the Government's ability to provide it.

E. Richard Bourdon, the research service's housing analyst who prepared the tax policy study for Mr. Barnes, says that although soaring interest rates for home mortgages have generally slowed home sales, condominium sales have held up. About one-half of all housing units sold here last year were condominiums.

Mr. Bourdon's report asserts that, under the national tax policy designed to encourage home ownership, "renters do not fare well." It is a policy, the report says, that rewards owners with deductions that amount to $19 billion a year in nominal tax liabilities—money kept by home-owning taxpayers, but not by renters.

"The imbalance in tax benefits," the report says, "is a major impetus to home ownership—and away from renter status—and has helped create the strong demand for condo conversions."

MARKET, THE POOR, THE LANDLORD

Inflationary pressures, tax incentives and then tax disincentives, the report says, are having this threefold effect on the situation:

The condominium market—The gift of deducting a portion of home ownership costs from income taxes becomes more and more valuable as increases in both inflation and real income push more and more people into higher income brackets. So these are more home buyers—defensive buyers.

More new households are formed each year than new housing units are built. More than ever, new families—today often childless—have a two-salary affluence that seeks tax relief and an inflation hedge in home ownership, often with a preference for an apartment. Many middle- and upper-income individuals and couples abhor, or cannot afford, the suburbs in which they grew up.

Elderly, retired homeowners now receive a capital-gains tax exclusion on sales of homes that may have tripled in inflated value in their lifetimes, creating another tax incentive for a condominium purchase in later, childless years.

The displaced poor—Inflation in costs has reduced the supply of moderate-income renters capable of paying today's high rents. The more affluent have become owners of houses or condominiums, or they can afford luxury rentals. (The median income of urban renters in 1977 was $8,200, and $17,800 for urban homeowners). Yet renters do not directly receive any of the tax relief granted property owners, including condominium owners.

The landlord's dilemma—Because of these anomalies, apartment buildings are worth more as owner-occupied than as rented housing. The Congressional Research Service report cites as an example a 276-unit garden apartment complex in Houston, bought for $7.1 million and given $2.5 million in "renovation." Within two years, the units were sold for a total of $14 million.

"A landlord's rental building may be assessed at $35,000 per unit", the report says. "Yet, with modest upgrading, such as a new kitchen, carpets and paint—or even as is—an individual buyer may pay $38,000 or $60,000 for this unit as a condominium." Further, the report terms the tax benefits available to rental landlords "generally inconsequential when compared to the gain to be made in converting."

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Chairman GONZALEZ. Thank you very much, Reverend, and we proceed with Mrs. Peters.

STATEMENT OF VIRGINIA PETERS, EXECUTIVE DIRECTOR, WESLEY HOUSING DEVELOPMENT CORP. OF NORTHERN VIRGINIA

Mrs. PETERS. Mr. Chairman, my name is Virginia Peters and I am the executive director of the Wesley Housing Development Corp. of Northern Virginia. With your permission, I would like to submit the full text of my remarks for the record and touch briefly in the key points.

Chairman GONZALEZ. Without objection, so ordered.

Mrs. PETERS. The Wesley Housing Development Corp. is a nonprofit corporation sponsored by almost 100 United Methodist churches just across the Potomac. It was established to extend the Christian faith by bringing housing relief to people in need. It is determined to do just that.

We got into this business in 1974 because we came face to face with the housing degradation experienced by our neighbors. Some shocking examples: A mother with terminal cancer and her drug-addicted son were found living in a garbage bag plastic tent in the woods of Fairfax County. A child was found sleeping in a storage closet without even the luxury of a mattress. Families not only lacked indoor plumbing but had no outdoor privy.

A mother and seven children lived in a two-room cottage-type motel. Two children, when I visited, were receiving treatment for rabies from rat bites. In case you should ever need to know, I will pass on the lesson this mother told me: "You sleep with the lights on. The rats don't come out."

With the knowledge that 45,000 families in northern Virginia do not have a decent affordable place to live, we could not turn our backs and walk away, and we did not. Our work is a direct positive response to the challenge of the Department of Human Welfare of the General Board of Church and the Society of the United Methodist Church to work in communities to improve human welfare.

WHDC seeks to implement the housing resolution approved by the 1980 general conference of the United Methodist Church. Some portions were quoted earlier by Mr. Knock.

Financing is a key factor. Seed money or cash donations from our churches and individuals, totaling about $100,000, coupled with thousands of volunteer hours, have enabled us to receive community development block grants for approximately $165,000 to meet our administrative expenses and almost $1.4 million for development, to produce a total portfolio of $6 million. That is our accomplishment in dollars and cents.

I wish to emphasize that no amount of seed money or volunteer hours can deliver assisted housing without affordable construction financing and long-term permanent financing. It is in your hands to see that this is available.

Community acceptance is vital. At the local level we enjoy 100 percent bipartisan support from the Arlington County Board and the Fairfax County Board of Supervisors which actually look to us to help them meet the housing needs of their constituents. To stim-

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ulate community acceptance we attempt to educate the public through the publication of a newsletter and the presentation of a slide show, "No Place Like Home."

I hope you will take the opportunity to read this booklet we have recently published, "When Housing Demands Concern." It indicates who is affected by the housing crisis, why their problem is so severe and how society can or should respond.

The housing activities of WHDC include Strawbridge Square, a 100-percent section 8 new construction community for 128 families. It was opened for occupancy in 1979 and was made possible because the church, the community, business, and local and Federal Governments all worked together toward a common goal. We, the nonprofit, promised the community to apply all of the advantages of the section 8 program to achieve an economically, racially and culturally balanced community. Through careful resident selection and much hard work, we have kept that promise.

Attachment A of the detailed report before you shows a residency ranging from senior citizens to large families and a broad range of incomes. The nonprofit actually selects the families and carrys out a monthly evaluation of management. Within this balanced community we have helped the poorest of the poor. You know, housing is people business, so I must once again illustrate.

Now living at Strawbridge Square in one of our wheelchair units is a partially paralyzed senior citizen who lived previously in condemned housing with no electricity and no plumbing. Another senior citizen lived in a burned out house or in his pickup truck because he could not afford rent. I could go on.

If we are to maintain the viability of the Strawbridge Square community, Congress must rescind the legislation calling for residency of only 10 or 5 percent lower income people and 90 or 95 percent very low-income people. This is a must because the change in residency will negatively affect the quality of life for residents and for the larger community and because it will more rapidly deplete section 8 reserves, as illustrated in attachment B of your package.

Mt. Pleasant Circle is a development of 13 single family-houses built for moderate-income purchasers and sold for the cost of construction. Equity is controlled for families. If they sell, they must sell to the local redevelopment and housing authority so that the houses can be resold to another moderate-income family.

Thirty-seven units at Knightsbridge Apartments were purchased last August. Attachment C describes the development and our plans for it. We have been working on this project for over 2 years. I lose track. It was a day of great jubilation when Senator Warner's office called us to inform us that the Knightsbridge Apartments was one of 236 out of the 769 that received tandem financing several weeks ago.

Now, however, we must cope with a major obstacle, the recently imposed cost limitation. The bottom line for us is that we need $77,300 more to close this deal insured under 221(d)(3). As you know, (d)(3) was passed to enable the nonprofits to develop affordable rental housing. HUD and OMB seem to be acting to prevent nonprofits from succeeding, despite President Reagan's emphasis on voluntarism.

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Since HUD is adamant that it will not waive the cost limitation, please act with great haste to enact legislation forcing HUD's hand to return to the previously unrestricted ability to increase the section 8 contract authority. The Fairfax Journal on Tuesday had what I consider the housing scoop of the year with a quote from HUD Secretary Abrams that "one waiver was granted in Pennsylvania." Please let us finish the Knightsbridge Apartments.

WHDC has accepted the challenge to work toward the goal of the 1973 Housing Act, a decent home in a suitable environment. As a nonprofit we do not shy away from difficult tasks and are proof that a private organization made up mainly of volunteers can and will accept the responsibility to meet the social needs of our Nation's neighbors. But—and that is a big but—no matter how much we care and no matter how hard we try, our hands are tied. We are helpless unless we have available affordable financing and rental assistance programs.

Some of my recommendations are consideration of a direct loan program for multifamily housing to be managed and released through local banks with loan conditions clearly outlined. The 13 houses we developed at Mount Pleasant Circle were financed through a local savings and loan. The Virginia Housing Development Authority was not interested because our project was too small. We dropped HUD processing for section 203(b) mortgage insurance after a lot of paperwork because it appeared that funding would not be available. The simplicity of dealing directly with the local bank was a joy and left time to deal with problem solving on the construction site and speed the delivery of housing to people.

We suggest you consider a cost-effective way of producing multifamily housing by using front-end interest rate subsidies to reduce the rent levels to those that low-income people can afford. It is imperative that you preserve the benefits of the section 8 program, especially the potential for economic balance. Any new legislation must be made simple and must be made workable for nonprofits.

I have talked about the 45,000 families in northern Virginia who need housing. Yesterday the Metropolitan Washington Council on Governments released an analysis of the budget proposal now before Congress. COG estimates that the budget will produce 305 new units for this area. That is a far cry from meeting the need.

The poor of this country are the silent citizens without the benefits of a powerful lobby. They are too often forgotten, neglected, and the victims of legislation. Civilization and humanity require that the poor not be relegated to the back streets, slums and alleyways of our society.

Thank you for the opportunity to tell the WHDC story and ask for your help.

[Mrs. Peters' prepared statement, on behalf of the Wesley Housing Development Corp. of Northern Virginia, and a pamphlet of the corporation "When Housing Demands Concern," follow:]

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TESTIMONY OF VIRGINIA PETERS, EXECUTIVE DIRECTOR OF
THE WESLEY HOUSING DEVELOPMENT CORPORATION OF NORTHERN VIRGINIA
BEFORE THE HOUSING SUBCOMMITTEE OF THE
COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS
U. S. HOUSE OF REPRESENTATIVES
MARCH 25, 1982

HISTORY

The Wesley Housing Development Corporation of Northern Virginia is a non-profit [501 (c) (3)] corporation chartered by the State of Virginia in December, 1974. It is sponsored by the almost 100 United Methodist Churches in Northern Virginia which recognize the serious lack of decent and affordable housing for people of low and moderate income.

WHDC is an outgrowth of a study conducted by the United Methodist Board of Missions of Northern Virginia to determine the needs of the people of our area. During the study we read, we l sted, and we visited people right in our own neighborhood who were living in deplorable conditions. We saw what housing deprivation means not in national statistics, but in very specific human terms:

A mother with terminal cancer and her drug addicted son were found living in a garbage bag plastic tent in a wooded area of Fairfax County.

A child was found sleeping in a storage closet without even the luxury of a mattress.

Families not only lacked indoor plumbing, but did not even have an outdoor privy.

A mother and seven children lived in a two-room cottage-type motel. Two children were receiving treatment for rat bites. In case you should ever need to know.....I'll pass on the lesson this mother learned. "Sleep with the lights on. The rats don't come out."

These are extreme examples. The housing crisis in Northern Virginia is more subtle and more widespread. It affects the people we see, talk to, and work with every day of our lives.

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One of many examples is that of a young school teacher in McLean, Virginia who actually lived in the school. He could not find affordable housing for his family and made do with a bed in the school and a commute to Pennsylvania to see his family on weekends.

Having witnessed and learned, we could not turn our backs and nonchalantly walk away knowing that over 45,000 families in Northern Virginia did not have a decent, affordable place to live. The result was WHDC, created to translate Christian faith into meaningful action. Thus far, it has developed housing for lower income people at Strawbridge Square and Mt. Pleasant Circle, with the hope of adding Knightsbridge Apartments to the list.

The work of the WHDC is related to the responsibilities and objectives of the Department of Human Welfare of the General Board of Church and Society of the United Methodist Church. The prime responsibility of the Board of Church and Society is to seek the implementation of the United Methodist Social Principles. The Board challenges church members to work through their local churches and through society to analyze and act upon issues affecting human welfare. WHDC programs seek to implement the Housing Resolution adopted by the 1980 General Conference of the United Methodist Church. Copies of this resolution have been distributed to you.

FINANCING

In order to carry out its housing mission WHDC must develop three types of financing:

SEED MONEY comes in the form of donations mostly from individuals and organizations belonging to the United Methodist Churches on the Alexandria and Arlington Districts of The Virginia Conference who are interested in implementing the purposes of WHDC. This "seed money," coupled with thousands of United Methodist volunteer man-hours, acts as a catalyst for:

GRANTS of federal funds administered by the Arlington and Fairfax Counties in the form of Community Development Block Grants for administration and for development costs, such as land options, engineering and architectural and feasibi ty studies. This enables us to secure:

CONSTRUCTION FINANCING, LONG TERM PERMANENT FINANCING AND RENTAL ASSISTANCE through public and private sources.

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We point with pride to our first project, Strawbridge Square, a 4 million dollar development, which came into being with many volunteer hours but only $2,000 in seed money.

Now we operate with dedicated volunteers, four staff people and an administrative budget of $100,000. Since our inception we have received over $100,000 in cash donations and $165,000 in Community Development Block Grants for administrative expenses. Various development expenses proposed by the WHDC (streets, community, etc.) but implemented by the Fairfax County Department of Housing and Community Development, total $717,000. Development funds implemented by WHDC total $790,000. Our total development portfolio is $6 million.

COMMUNITY SUPPORT

No number of volunteers, even supplemented by paid staff, can succeed in the delivery of assisted housing without affordable construction financing and long term permanent financing. The combination, however, of a community-based church-sponsored non-profit and federal financing and rental assistance programs can deliver quality housing. This has been the secret of our success in delivering 178 units serving 550 people. The payoff is more than that, though, because we have brought credibility to and increased citizen support for assisted housing programs because of the high quality of our developments, which enhance communities.

Several years ago, Strawbridge Square was cited in People Power, a publication of the U. S. Office of Consumer Affairs. More recently WHDC is cited in Becoming a Prophetic Community by Jack Corbett and Elizabeth Smith as an example of a church group which not only has a concern about social problems, but takes action to improve society and create social change. Last summer the Metropolitan Washington Planning and Housing Association presented WHDC a Certificate of Achievement "in recognition of Community Services provided to improve housing opportunities and neighborhood environments for low and moderate income persons in the Washington Metropolitan area."

At the local level we enjoy 100 per cent bi-partisan support from the Arlington County Board and the Fairfax County Board of Supervisors. We have worked hand-in-hand with these elected leaders to solve community-based problems resulting from condominium conversions and displacement of lower income people. The strength and impact of a church-sponsored non-profit housing developer is great because its long term commitment is recognized. Neighborhood organizations

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as well as politicians know that the church has had a leadership role in the community, and that as long as there is a community, there will be the church.

Because it recognizes the importance of community acceptance, WHDC has an education program as a vital part of its activities. We publish a newsletter periodically and have a slide show, "No Place Like Home," which is available for churches and community organizations. Recently WHDC published "When HOUSING Demands Concern," which describes the extent of housing need for lower income people. It presents the facts on WHO is affected by the housing crisis, WHY their problem is so severe and HOW society can respond.

HOUSING ACTIVITIES OF WHDC

1. WHDC's first project, Strawbridge Square, is a 100% Section 8 new construction community which became a reality through the dedicated efforts of a wide variety of organizations and individuals.

-- The Vernon M. Lynch Sons Partnership donated 20.4 acres inside the beltway. Later half was donated by WHDC to the Fairfax County Park Authority.....
-- The Fairfax County Department of Housing and Community Development provided technical assistance.....
-- The Fairfax County Board of Supervisors approved the land use.....
-- The National Housing Partnership was selected as General Partner and brought technical expertise and financial backing.....
-- The Fairfax County Redevelopment and Housing Authority provided long-term financing through the sale of tax-exempt bonds.....
-- Federal rent assistance was provided through the U. S. Department of Housing and Urban Development.....

Extraordinary resident selection procedures were implemented to insure an economically, racially and culturally balanced community of responsible citizens. Our tenant profile ranges from senior citizens to large families with a broad range of income. Several handicapped persons live in our units designed to accept a wheel chair. Attachment A gives a brief description of the total community.

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Again, however, it is not the numbers, but the human stories, that make the point:

-- A partially paralyzed senior citizen lived in condemned housing without running water or electricity.

-- Another senior citizen lived in a burned out house or in his pick up truck because he could not afford rent.

-- A mother and father had to send their children to live with relatives because they could not afford to house them.

Strawbridge Square has given these people a new lease on life

The continuance of a viable community at Strawbridge Square requires that you RESCIND THE 10-90 RULE Congress recently enacted. An economic mix of 10 per cent lower income people with 90 per cent very low income people is bad for three reasons:

-- Community acceptance of Strawbridge Square was based, in large part, upon a commitment by WHDC to create an assisted housing development that would complement the existing upper middle class white neighborhood. Community acceptance was crucial to the successful rezoning effort and to gaining the Section 8 commitment.

-- Actual experience at Strawbridge Square indicates that the contribution to the Section 8 reserve will become less each year even though tenant contributions increase and the desired economic mix is maintained (see Attachment B). The reduction in the contribution to the Section 8 reserve will be greatly increased if the income mix were 10 per cent lower and 90 per cent very low income families. These lower tenant contributions will have to be offset by higher Housing Assistance Payments which in turn reduces the contribution to the Section 8 reserve.

Using average monthly rates of tenant contribution for lower and very low-income households, the present tenant population of 37 per cent lower and 63 per cent very low-income households would annua ly contribute an estimated $251,628 toward project expenses. If, on the other hand the tenant mix were HUD's recommended 10 per cent lower and 90 per cent very low-income, annual tenant contributions would be an estimated $208,368, a decrease of 17 per cent.

-- Enforcement of the 10-90 tenant mix would have serious implications on the social and economic viability of the development, leading to a concentration

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of the very poor in a confined area. The increasing homogeneity of the assisted housing residents at an income level below that of previous residents would also signal a rapidly increasing disparity between Strawbridge Square residents and the surrounding community. Previous housing programs that have housed large numbers of very low-income families in one location have demonstrated the added strain that can be placed upon management and social support services.

The owners are legally bound by a Collateral Agreement with the Fairfax County Redevelopment and Housing Authority which requires the maintenance of a 70 per cent lower income and 30 per cent very low-income mix at the development.

2. The Knightsbridge Apartments were purchased last August and was one of 236 out of 769 projects to receive Tandem financing. Our jubilation at winning the drawing came to a screeching halt when we learned not of another HUD processing hurdle, but of a major obstacle--that of a recently imposed cost limitation. The Department of Housing and Urban Development has instituted new cost containment measures that severely impact the economic feasibility of this project. Supplemental increases in Section 8 contract authority, which were previously unrestricted, are now being limited to 7 75% of the original contract levels for each year that occupancy is delayed. All amendments, no matter how old, will be included in this limitation. HUD has stated that the limit is immutable-- NO EXCEPTIONS.

Knightsbridge received a feasibility letter from HUD in October of 1980. If we again assume a one year trending of the Section 8 contract authority, the maximum mortgage obtainable would be $1,633,300. The outstanding firm commitment for FHA mortgage insurance under Section 221(d)(3) from HUD shows a need for a mortgage of $1,710,600. WHDC would have to come up with the additional $77,300 to make this project work within the 7.75% limit. This imposes a severe burden upon a non-profit sponsor. Section 221(d)(3) was passed by Congress to enable non-profits to develop affordable rental housing. HUD and O.M.B. seem to be acting to prevent non-profits from succeeding, despite President Reagan's emphasis on "volunteerism." Since HUD is adamant that they will not waive the cost limitations, PLEASE ACT WITH GREAT HASTE TO ENACT LEGISLATION FORCING HUD'S HAND ON THIS MATTER.

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3. WHDC's Mount Pleasant Circle project involved 13 houses built and sold in 1981. The houses were sold for the cost of construction - $61,500 to $63,000. A comparable home in a Northern Virginia suburb would sell for $80,000. A local savings and loan provided the construction financing at one per cent more than it paid for the Community Investment Funds from the Federal Home Loan Bank Board. It also provided the long term permanent financing and secured private mortgage insurance for the families. The Fairfax County Redevelopment and Housing Authority provided a second mortgage to eligible families. The criteria were:

-- Have an income of more than $22,500 and less than $29,300 for a family of three, less than $32,480 for a family of four, less than $34,500 for a family of five and less than $36,500 for a family of six;
-- Work or live in Fairfax County;
-- Live now in a rental unit;
-- Have a family of three to six members;
-- and Qualify for the financing.

For a $62,500 house, buyers were required to pay $2,500 as the down payment and $600 to $1,000 toward the closing costs. The monthly payments will begin at almost $500 and gradually increase to a stable $678 under the graduated mortgage plan. The equity is controlled and the purchasers must sell to the RHA so that the homes can be resold to another moderate income family.

A PROGRAM FOR THE FUTURE

I would like now to look at current housing needs, the ability of the housing industry to meet those needs, and the direction future legislation should take if we are to maintain our commitment to the American people.

As a result of programs such as FHA mortgage insurance for single homes and mult-family properties (which, by the way, have always been self-sustaining), the government has enabled private industry to serve the housing needs of low and moderate income persons. These programs were so successful that they were copied by the private sector, which spawned PRIVATE MORTGAGE INSURANCE companies. Other programs such as public housing, the Section 23 leased housing program, and Section 8 have enabled local governments to address the needs of those citizens

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at or below the poverty line. The private sector has never been able to provide housing for such persons without some assistance program.

The housing industry has been in a state of depression over the last 48 months. Record interest rates which show no sign of abating have made the production of market-rate rental housing virtually nonexistent. Subsidized rental housing is being rescinded at an alarming rate. Single-family housing starts have declined dramatically as over two-thirds of the American public cannot afford the monthly payments on a median-priced new home.

The result is great pressure upon the existing stock. Increasing rates of household formation and a larger flow of immigrants into the country add to the pressure. Many families are forced to "double-up" or overcrowd units. Rents and sales prices on existing units are forced upward. At the same time, the Administration proposes to abolish the successful Section 312 rehabilitation program, the Section 8 Moderate Rehabilitation program, and other sources of rehabilitation financing which are needed to upgrade our existing stock.

If the Congress is to maintain the commitment it made in the Housing Act of 1937 to a "decent home in a suitable environment" it must take legislative actions that will make it possible for federal state, and local governments, non-profit groups, and the private sector to join in partnership to deliver housing to all Americans at a price that is affordable.

As a 501 (c) (3) non-profit corporation, WHDC shares the concerns of both the Congress and the Administration regarding the costs of assisted housing. We believe that there are numerous ways to reduce both the hard construction costs and the soft costs of overhead and rent subsidies. We and other non-profits would be happy to work on a task force to review existing programs such as Section 8, Sections 221(d)(3) and 221(d)(4) to streamline them. However, we feel Congress would betray the trust of the American people were it to simply terminate the programs which have produced 45 years of successful federal-state-local government partnerships with private industry and non-profit organizations and have delivered quality housing.

RECOMMENDATIONS

1. We urge your SUPPORT FOR THE PROPOSAL RECENTLY DEVELOPED BY THE "AD HOC NO NAME COALITION" FOR A REPAYABLE INTEREST RATE SUBSIDY in order to keep

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production of units going during these difficult times. The Administration is correct in viewing non-profit corporations as a valuable housing development resource, and this proposal should be modified to make it workable for non-profits.

2. While it is important to stimulate single family housing development, renters should not be treated as second rate citizens. In fiscal 1982 tax benefits to homeowners will amount to more than $39 billion. By way of comparison, in the same year the federal government will spend about $16 billion for the entire budget of the Department of Housing and Urban Development. SOMETHING SHOULD BE DONE TO EVEN THE BALANCE.

3. CONSIDER A DIRECT LOAN PROGRAM for multi-family housing to be managed and released through loca banks with loan conditions clearly outlined.

Last year when we were ready to construct single family homes at Mount Pleasant Circle, we tried to get financing from the Virginia Housing Development Authority. They were not interested because our project was "too small." We started the HUD processing for Section 203 (b) mortgage insurance, but dropped it after a lot of paper work because it appeared that funding for the program would not be available. We went to a local savings and loan and secured construction financing and permanent financing with private mortgage insurance. The simplicity of dealing directly with a local bank which carried out the inspections, reviewed the requisitions and released the money was a joy and left time to deal with problem solving on the construction site and speedy delivery of housing to people.

4. A simpler and more cost-effective way of producing multi-family housing might be TO USE FRONT-END INTEREST RATE SUBSIDIES TO REDUCE THE RENTS TO LEVELS THAT LOW-INCOME PEOPLE CAN AFFORD, rather than to enter into 20-year rental assistance contracts

5. PRESERVE THE BENEFITS OF THE SECTION 8 PROGRAM, especially the potential for economica ly balanced communities.

6. Make any NEW LEGISLATION WORKABLE FOR NON-PROFITS.

7. Be sure THAT HOUSING PROGRAMS ARE SIMPLE, that processing time and red tape are reduced so that the actual housing subsidy is direct enough to get to the people who need it.

8. CONTINUE TO FUND THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM.

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The poor of this country are the silent citizens without the benefits of a powerful lobby. They are too often forgotten, neglected and the victims of legislation. Civilization and humanity require thet the poor not be relegated to the back streets, slums and alley-ways of our society.

Wesley Housing Development Corporation
of Northern Virginia

3900 King Street
Alexandria, Virginia 22302
(703)379-9477

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ATTACHMENT A

STRAWBRIDGE SQUARE
FAIRFAX COUNTY, VIRGINIA
100 PER CENT SECTION 8 NEW CONSTRUCTION

Owners: Strawbridge Square Associates
National Housing Partnership (NHP)
Strawbridge Square, Inc. (SSI)
(SSI is an affiliate of WHDC)
Limited Partners

Management: NCHP Property Management, Inc.

128 Total Units

126 Receive Section 8 Assistance

14 1 BR garden
28 2 BR garden
6 1 BR TH for wheel-chair
24 2 BR TH
36 3 BR TH
18 4 BR TH

PROFILE OF TENANT CHARACTERISTICS: 358 residents; 182 are children

Marital Status		Race		Household Income	
Single	79 or 62%	W	86 or 68%	$1904 - 5000 -	19
Married	47 or 37%	B	26 or 20%	5001-10,000 -	17
Single w/children	62 or 49%	O	14 or 11%	10,000-15,000 -	51
Married w/children	41 or 32%			15,000-20,000 -	37
Married no/children	6 or 4%			20,000-32,860 -	2

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ATTACHMENT B: FISCAL IMPACTS OF PROPOSED INCOME MIX GUIDELINES AT STRAWBRIDGE SQUARE

	TOTAL ANNUAL TENANT CONTRIBUTION	TOTAL ANNUAL HOUSING ASSISTANCE PAYMENT	TOTAL ANNUAL CONTRIBUTION TO PROJECT RESERVE FUND
(Actual Amounts)			
1980	$212,191	$315,979	$316,865
1981	240,206	405,926	236,918
Current Estimates with Present Income Mix* (37% lower-income, 63% very low-income)	$251,628	$393,668	$239,176
Current Estimates with HUD Proposed Income Mix* (10% lower-income, 90% very low-income)	$208,368	$432,872	$199,971

*Estimates based on an average monthly tenant contribution of $231 for lower income households and $128 for very low-income households in January, 1982.

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ATTACHMENT C

KNIGHTSBRIDGE APARTMENTS FACT SHEET

Location: 210 to 212 North Glebe Road, Arlington, Virginia
Near Buckingham and intersection with Route 50, behind
C & P Telephone Company

Description: 6 brick buildings: 31 2 BR, 6 1 BR

Condition: Good

Rehabilitation: To include replacement of oil heat, with individual electric heat pumps and air conditioning; installation of new kitchens, roofs, doors and windows; insulation; upgrade electrical, mechanical, and plumbing systems; provision of tot lots and two handicapped units.

Total improvements: $803,036

Purchased 8/12/81 for $795,000.

HUD processing:

Section 8 notification of funding: Issued on September 21, 1980. Annual contract authority is $224,076. Budget authority reservation is $4,481,520.

Feasibility Letter issued on October 17, 1980.

Firm Commitment issued on January 15, 1982 for a loan in the principal amount of $1,761,600 to be insured under Section 221 (d) (3) at an effective rate of 8% interest. The F.A.F. to provide the interest differential between 12% and 8%. Total estimated cash equity is $278,490.

Affirmative Marketing Plan approved.

Tenant Profile as of September, 1981: 40% Hispanic, 30% White, 15% Black, 15% Oriental.

Renovation will be in three phases in cooperation with approved Relocation Plan estimated to cost $51,275.

Development Team:

Architect Grimm and Parker, Alexandria, Virginia
General Contractor: Harkins Commercial, Silver Spring, MD.
Settlement Attorney: Jim Lyons of Coan, Couture, Lyons & Moorhead
Mortgagee: Gay Beasley Lawrence of ABG Associates, Washington, D. C.
Management: NCHP Property Management, Washington, D. C.

Financing: GNMA Tandem Permanent Mortgage Financing at 8%
Construction Financing to be obtained from the Virginia Housing Development Authority or through 11 (b) Bonds

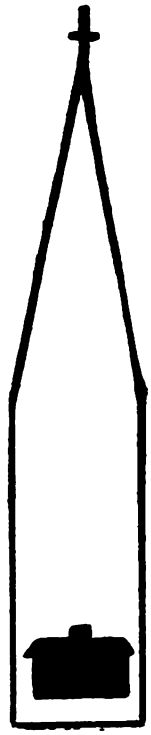
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When HOUSING Demands Concern



WHDC

WESLEY HOUSING DEVELOPMENT CORPORATION
OF NORTHERN VIRGINIA
3900 KING STREET, ALEXANDRIA, VIRGINIA 22302
TEL. (703) 379-9477

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PROFILE:

A partially paralyzed Senior Citizen on Social Security was living in condemned housing without running water or electricity. Thanks to Section 8 she is now in a unit that is accessible to her via wheel chair at a price she can afford.

PROFILE:

A family consisting of a mother and her two sons had been forced to separate because the mother, partially disabled, could no longer afford their home. The boys were sent to live with different relatives. Now they are together again in a financially assisted community in a convenient area.

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When HOUSING Demands Concern

INTRODUCTION

As recently as December 2, 1981, a front page story in The Washington Post headlined additional cuts in subsidies to the poor, particularly in the areas of housing aid and programs to aid cities.

Included in the proposals by budget director David Stockman is the phase-out by 1984 of the existing community development block grant (CDBG) program and authorization for no new subsidized housing units for the poor in fiscal 1983.

Although Mr. Stockman's proposal is not final and has not been officially approved, it is important that we be aware of the tensions between federal budgetary concerns and the increasing need for housing support. Recognizing this need the Department of Housing and Urban Development had requested an additional 100,000 units for fiscal 1983.

This booklet is intended to bring to your attention some pertinent facts about the crisis in housing for the poor in the Northern Virginia area. We urge you to read it--and to support those programs which will increase the dignity of life through quality of housing environment for the poor in our community.

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An excellent detailed study of the housing situation in Arlington County is contained in the Report of the Affordable Housing Advisory Committee, January, 1981, James M. Wright, Chairman.

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Americans believe that decent, affordable housing is both a necessity and a right. Over thirty years ago the Housing Act of 1949 set the goal of "a decent home and suitable living environment for every American family." Today most Americans, fortunately, are able to afford decent housing on their own incomes. Many enjoy very comfortable and spacious homes; some even own and use two homes in different locations.

Emphasis on the improving American lifestyle, however, detracts attention from the fact that there is an increasingly large proportion of the population for whom a decent home is no longer realizable. Rising costs of food, clothing, transportation, and housing compared with income earned has moved many formerly middle class families into the moderate-to-low income categories. The problem has escalated as high interest rates, restrictive land-use policies and decreases in housing subsidies have contributed to fewer new rental housing units being constructed.

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The estimated median family income in all of Northern Virginia in 1980 was $36,127.[1]

Estimates of median family income for specific communities include:

Alexandria:	$28,742	Arlington:	$34,426
Fairfax County:	$39,346 [2]		

Housing need is generally defined as affecting those households where more than 25-30 per cent of family gross income is paid for housing. Of the two categories of need for housing assistance, the "very low income" households are those with median incomes less than or equal to 50 per cent of the area median household income. The "lower income" category includes those households at or below 80 per cent of the area median household income.

FACT: The large majority of families eligible for housing assistance ARE EMPLOYED.

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1. Estimate based on information supplied by the Report of the *Ad Hoc* Housing Advisory Committee, Arlington County, January, 1981, p. 5.

2. Estimated figures based on the expected rate of increase in the Standard Metropolitan Statistical Area (SMSA) figures from 1979 statistics.

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Table I illustrates the wide range of employment positions which yield incomes below the median level.

CATEGORY	ANNUAL INCOME
teacher (Arlington)	$14,224
(Fairfax)	$16,570
police	$17,000
firefighters	$16,602
carpenters	$10,400 - 15,600
masons	$ 8,320 - 12,480
mechanics	$ 9,000 - 10,500
bank teller	$ 8,000
store clerk	$ 6,968
office clerk	$10,090 - 12,000
school secretary (Arl)	$10,842
(Ffx)	$11,393
cook	$ 6,968
gas station worker	$ 6,968
Federal Govt.: GS-5	$12,854 - 16,706
GS-4	$11,490 - 14,937
GS-3	$10,235 - 13,304
GS-2	$ 9,381 - 11,807
GS-1	$ 8,342 - 10,439
Supplementary Security Income(SSI - aged or disabled)	$ 3,416.40
**Social Security (single)	$ 1,464.00
**Social Security (couple)	$ 9,034.80
Public Assistance Maximum (mother + 2)	$ 3,720 - 4,128
Military (E-1)	$ 8,599
(E-4)	$ 9,997

TABLE 1 *

* Figures approximating beginning salaries and categories of employment revised by editor.

** Age 65 in 1981

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Economists have determined that families should spend no more than 30 per cent of their income on housing, whether as rent or as mortgage payments. Table 2 illustrates the maximum amounts that should be designated for housing at various income levels.

INCOME ANNUAL	INCOME MONTHLY	30 PER CENT FOR HOUSING MONTHLY
$ 2,000	$ 166.67	50.00
4,000	333.33	100.00
6,000	500.00	150.00
8,000	666.67	200.00
10,000	833.00	250.00
12,000	1,000.00	300.00
14,000	1,166.67	350.00
16,000	1,333.33	400.00
18,000	1,500.00	450.00
20,000	1,666.67	500.00

TABLE 2

WHERE COULD A DISABLED PERSON LIVING ON SSI OF $284.70 FIND HOUSING FOR $71.18 PER MONTH?

According to a Council of Governments study in 1979,* the median rents for apartments in Northern Virginia** by size are:

APTS.	
efficiency	$258.80
1 Bedroom	275.40
2 Bedroom	314.40
3 Bedroom	401.80

* Housing Technical Report Series #5, 1979, Table 2, pp. 16-20.

** Includes jurisdictions of Alexandria, Arlington Falls Church, Fairfax City and Fairfax County.

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Median rents by housing types in the same geographic area include:

low rise units	$281.
mid rise units	321.
high rise units	331.
townhouse	319.

The foregoing figures reflect a percentage increase of 22.19 per cent over a two-year period.

FACT: The majority of the unemployed are elderly, permanently disabled, children, or mothers of preschool children. Not all who need housing assistance because they are unemployed are lazy and uninterested in working.

The Section 8 Rental Assistance Program, established by the U. S. Department of Housing and Urban Development in 1974, pays the difference between 25 per cent of a family's adjusted gross income and the market rent of a unit.

Guidelines for eligibility for Section 8 assisted housing, based on adjusted gross income, are applied on an individual basis. A single person can earn up to $15,100; a family of two can earn up to $17,300; and a family of four can earn up to $21,000. These figures, based on 80 per cent of the area median household income, are in the "lower" or "moderate income" category.

WHERE CAN A PERSON MAKING A MINIMUM WAGE OF $580 MONTHLY FIND HOUSING FOR $145-$175?

WHERE CAN A FAMILY OF FOUR WITH A TOTAL INCOME OF $10,000 FIND HOUSING FOR $250.00 A MONTH?

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Currently it is estimated that in Arlington County there are only 75,000 rental units. Conversion of more than 7,000 units has taken place since the early 1970's leaving several thousand renters unable to afford to purchase.

> FACT: In the long run, maintenance of property is the joint responsibility of tenants and management. It is unfair and inaccurate to assume low income tenants are neglectful of their property.

The 1981 report of the Arlington County *Ad Hoc* Advisory Committee estimates that there are more than 10,000 needy households in Arlington County (p. 37). Fairfax County estimates 26,000 families need housing assistance.

Very few conventional rental apartments have been built in Fairfax County since 1974. The Fairfax County Department of Housing and Community Development attributes this to the cost of land and construction, and the resulting rents required. Loss of many of the older, moderate rent apartment complexes to redevelopment or condominium conversion has forced thousands of moderate and low income families out of their homes. The list includes:

Shirley Duke and Regina	2100 units
Parkfairfax	1684
Fairlington	3155
Buckingham*	1805
Columbia Knolls	200
Colonial Village	212
Claremont Apartments	520
Four Mile Run Park Apts.	163
Virginian	261

*A conventional cooperative

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As the trend to condominium conversion continues, more and more of the low and moderate income renters are displaced. According to the Arlington County *Ad Hoc* Advisory Committee report, "If the current rate of conversion (approximately 1,500 units per year) continues throughout the 1980's, by 1990 there will be only about ... half the 38,000 units available in 1970." (p. 39)

> FACT: Applicants can be selected through careful screening on such matters as their record of past tenancies and credit history, even in Federally assisted buildings.

Fairfax County's publication, "Estimated Median and Average Housing Value of Owned Units by Housing Type" for 1981 estimates the valuation of owned homes to be:

	Median	Average
Single Family:	$106,800	$115,800
Townhouse	79,800	81,700
Condominium	51,500	68,100

Average sales prices for all houses in Fairfax County in 1980 averaged $103,654 for single family detached and $72,439 for single family attached.

As of January, 1980, Arlington County estimates median sales prices to be:

Single Family detached:	4 BR	$184,000
	3 BR	$169,900
Single Family attached:	3 BR	$102,400
	2 BR	$ 89,400
Low Rise Condo Conv:	3 BR	$ 83,990
	2 BR	$ 62,990
High Rise Condo Conv:	2 BR	$ 66,000
	1 BR	$ 53,900

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The Federal Department of Housing and Urban Development administers various programs to public and private developers of assisted housing.

Public Housing - built, owned and managed by local housing authorities, was the original Federal solution to the housing problem. It has been less popular and received less funds from Congress since the development of the once favored "Section 8" program. HUD is advocating a complete phase out of any new public housing by 1983.

The Section 8 Rental Assistance Program pays the difference between 25 per cent of a family's adjusted gross income and the market rent of the unit. This is expected to change to 30 per cent in the near future. Section 8 can be used through

1) "Finders Keepers" Certificates or "Vouchers" which are issued to qualified families who seek and rent existing housing from ANY landlord who is willing to participate in the program provided the rental unit falls within the Fair Market Rent set by HUD.

2) Guarantees of "Section 8" rental assistance have been available to developers, non-profit sponsors and housing authorities who rehabilitate deteriorated buildings.

By 1983 a substantial reduction in subsidies for sponsors of new construction rental or cooperatively owned developments is being proposed by HUD. Instead, money is being requested for public housing operating subsidies, modernization, and troubled projects' operating subsidies.

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The Wesley Housing Development Corporation is Northern Virginia-wide in membership and orientation, having been founded as a non-profit corporation by the United Methodist Churches of Northern Virginia in 1974 to address the serious lack of decent and affordable housing for people of low and moderate income. It is funded by contributions from the Northern Virginia United Methodist Board of Missions, private individuals, foundations, and Community Development Block Grant Funds administered through Arlington and Fairfax County.

In September 1979, Strawbridge Square, sponsored by WHDC as a low-and moderate-income apartment project, opened its doors to 128 families. The project is enhanced by the Lincolnia Community Center, administered by Strawbridge Square, Inc., which helps to serve the leisure time interest of the community and the surrounding neighborhood.

By spring 1981, WHDC had completed construction of Mt. Pleasant Circle, a group of 13 single family homes offered for sale through the Fairfax County Moderate Income Direct Sales program. All these homes have been sold.

The acquisition of the Knightsbridge Apartments in Arlington County took place in August, 1981. This renovation project will provide rental housing for 37 low and moderate income families.

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FACT: Up to 70 per cent of those who can live in assisted housing may be of "moderate" income. Applications for existing projects indicate a large number of moderate income families are seeking housing assistance.

Many future decisions about funding low and moderate income housing are political and will depend on the strength, the persistence, and the support of those who believe in it. We urge you to:

Support the development of, and funding for, low and moderate income housing by contacting appropriate public officials.

Seek and support landlords or private sponsors who will develop more low and moderate income units.

Support W.H.D.C. with your time as a volunteer and/or your financial aid. WE NEED YOUR HELP!

+ +

THE WESLEY HOUSING DEVELOPMENT CORPORATION
3900 King St., Alexandria, Va. 22302
(703) 379-9477
President: W. Earl Masincup
Executive Director: Virginia Peters

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When HOUSING Demands Concern, 1981
Carroll Flaten, editor; Arne Flaten, cover artist
A revision of "Why Assisted Housing?", 1979, Patricia McGrady, editor.

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PROFILE:

A Senior Citizen, unable to afford rent payments, was essentially homeless, living part of the time in a condemned, burned-out house and part of the time in his truck in the middle of the winter. Suffering from six serious illnesses, he was desperate until he found a subsidized community which he could afford and which welcomed him.

PROFILE:

A mother of three was living in a two bedroom apartment in a rundown neighborhood. Although she had been accepted into a training program to prepare her for a better job, she could not find decent housing on her salary. Now the family is living in a suitable environment, and the mother is employed in an on-going capacity.

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Chairman GONZALEZ. Thank you very much, Mrs. Peters. In view of the fact that I guess every one of us is having some kind of a conflict here in this rather disorderly period and due to the fact that I was not able to be here, as I very desperately wanted to, when the first panel presented their views, I would like the record to show that in my case the presentation by the religious leaders here assembled this morning has been very evocative and very significant, especially the Southern Baptist Convention spokesman will have a definite political impact.

At this time everything you have said, of course, I must say some of us have been saying since 13 months ago. We could not get anybody to discuss it 13 months ago, even though it was an issue just as much then as it is today. I cannot evoke another period, another world in words, but I think that the record ought to reflect why there is such a personal association.

When I mentioned that the Southern Baptists as a group in the South in the 1920's, to be precise when I was about 5 years old, was because one of the oldest members of my family suffered, most traumatically, was the fear engendered at about midnight by some nightriding hoodbearing Ku Klux Klanners. They just scared the wits out of one of my aunts who was helping a mother and father to raise a family and about 13 other dependents that had fled from Mexico during a highly turbulent period to San Antonio.

The reason they were rampaging and terrorizing the neighborhood was because in the rear of our house at that time was a converted barn occupied by two black families and so these nightriders were really there whooping it up to scare the blacks but actually also intimidating what they called the Mexicans in the front house.

So I remember the terror, just the things that happened and waking up in that environment and then later—not more than 2 years after that—walking down the then-dusty street over to what was the Jewish Women's Council or Federation. They were the only ones that had instruction in English, that is for English and for citizenship, in that whole area for years. For decades even after that such was discouraged by even the Immigration and Naturalization officials. Instead of encouraging it they did everything they could to keep people from wanting or being enabled to become citizens.

We still have residual effects so that when the federation spokesman here for the American Jewish Federation, I could not help but intend to bring this into the record. Even then it was a very lonely job. Nobody else was doing it. Nobody else—church organizations, civic organizations, defense, nothing.

Then in the case of the Wesley Housing, as I grew a little bit older and participated in basketball, the Wesley House on the west side, Mexican town, was the only place that had a roof over a gym where we could play basketball and compete in the city league and also the only settlement house, if you want to call it that.

So Wesley Community, the Jewish Federation, the Baptist Convention, and the others represented here have very definite identification in my mind, certainly at this time. There is a reaffirmation of that commitment.

The problem as I see it is that we have a real political war in order to even be minimally responsive to what is obviously our ex-

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perienced recommendations. We would have to talk in terms of some conversions, born again Americans, starting with the President, but really here on this level because even now the only thing going for us—and this was a reason that I was very grateful for the specific reference by some of the panelists, not all, to the endorsement of the vehicle that we have put together where the odds are being placed against us.

It is the only thing that would even give you a lifeline hold on these basic programs that you know and you testify very eloquently are not only needed, they are vital. They are indispensible unless we accept the Third World country economy and standard of living for Americans, which, incidentally, I think has been the issue now for some time.

I had said as far back as 13 years ago that the real issue was what we called the standard of living. At this point I would really appreciate very much specific help as far as you can in supporting the specific legislation we have put together which we have labored for more than a year on. We have gone into a lot of States, at least I have gone into a lot of States. The subcommittee has gone into five from the Eastern Shore to California.

We would have done more but we have to fight for our own minimum moneys for this committee. Men like Senator Warner very cavalierly calls you and tells you look, here is a grant but does not tell you how he voted on that which enables a President to zero out such a program. It is zeroed out as of this moment and the President's budget request further anchors it down.

The President might be far less honored as a humanitarian by the Council of Christians and Jews. Yes, I did notice in the paper that some revolted at that. Some of the members and former recipients returned their medal or whatever it is, but it shows the anomaly that we are in today.

You have the record of everybody saying oh, sure, we're not against doing something. But what you are asking for is contrary to the President's economic recovery program or plan because we have got to cut back. What you are asking for is a continuation even of a minimal subsidy. And even though it does involve the elimination or death of a basic program or policy that the Congress itself has set for more than 30 years, in some cases we are going to kill them without even having a hearing to evaluate the merits.

Last year this is what we did when we sat down in the conference. It was not to go over the vehicle that we had for a while which was the Housing Act of last year because every one of these assisted housing programs must be renewed on a yearly basis. This is why we are having the hearings now on the bill. But last year, under a new, up to then quite novel avenue known as reconciliation mandated by the so-called Gramm-Latta substitute which was to a man supported by the Republican Party, including Senator Warner, we had then to sit there and to me the most awesome and dismal experience was to sit last year in the conference and talk about well, look. How are we going to get together here on x number of dollars instead of y and deciding that to all intents and purposes certain programs were being killed by that and others were being reduced to an ineffective level.

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But that never was the issue of the discussion. The merit or demerit of the program was not under consideration at all. There were just about seven or nine of us there deciding the fate on the basis of a computer target mandated by this section.

So what I am saying right now is that it would be very helpful. The only thing that I know that we can do is political and that is what can be done now to reach the likes of Senator Warner. Tell him, "Senator, you want credit for having announced a grant, but what can you do now so that you can have the honor and get the credit again of announcing another grant.

Mrs. PETERS. A waiver.

Chairman GONZALEZ. Well, the waiver, you see, that is directly targeted by the administration, specifically targeted as eliminated. We had the Secretary of HUD before us, and he said that he was very proud of what he had done thus far in stopping the committed programs insofar as 202 is concerned, for example.

Originally they were out to kill 202 completely, but the outcry from some of us directly and indirectly, in fact through channels such as your church organizations and others, made them realize that when it came to the 202 and the elderly and the disabled that that was political dynamite and they could not do it quickly. So he finally came in and said well, 10,000, the budget is OK on that.

But actually that in itself will barely keep the process in place, if at all. He clearly indicated that even if he felt as Secretary of HUD, or actually I think his judgment would be best, that would have to yield with whatever it was that was mandated by the Office of Management and Budget. The Office of Management and Budget has been very clear that too much credit or allocation of credit has been heading for housing, not just assisted housing but in the areas of the secondary mortage markets.

The President's budget allows for no construction, period. His Commission on Housing which for a year has been the excuse for their not addressing what they admit on questioning from myself as an ongoing housing crisis—which, of course, you do dramatically individualize.

I am very grateful for your presentations. To those of you who specifically signified your support and if you could impress upon your associates in other jurisdictions who in turn might have some impact on our colleagues that we might have a chance, we might just have a chance.

In all truthfulness, the Congress cannot duck the issue like it did last year this time because whether through inaction or negative action these policies and programs will die. They are dead. So what we are offering is minimal and it is all within the target of the budget limits that the President himself had indicated was acceptable.

This, I thought, would represent my input this morning and my specific questions, really you anticipated them. You have answered them. You have reconfirmed some and I repeat, we are very grateful.

Mr. Vento.

Mr. VENTO. Thank you, Mr. Chairman. Your testimony was indeed very good testimony and very helpful insofar as you specifically offered your support. I feel like even the measure we pro-

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duced, although it has some innovative features in it in terms of multi-family housing, in terms of providing innovative grants, that it really is sort of limited and really does not get at any more of the problem than what we have been dealing with.

But at least permits what I would characterize as the infrastructure that exists, whether it is public, private, and keeps it in place so that we continue at least to have some basis for a response to what are very harsh crises in terms of housing, especially at this particular time. Obviously, because of the recession that is gripping this Nation now, none of the economic predictions, I suppose, either positive or negative, that have been made by the administration really have started to work. I frankly do not think that they will, but obviously they share a different point of view.

Your testimony in support of this specific bill, I think, is very helpful. Right now, of course, the universe of individuals that are in need of assisted housing has expanded very, very greatly by the virtue of what has happened to interest rates and there is a great deal of hostility toward the programs that are aimed at the low-income individuals from those that can no longer afford housing during this particular time.

So it becomes very difficult, even during the best of economic conditions. Low-income people cannot afford housing in the present context of the way the housing is provided in this Nation. We hope that that is temporary, but we know that it is important to maintain some program.

I think no one is saying that section 8 is the only way to go, but if you are going to replace it you have to have something in its place and unfortunately the Reagan administration has nothing in its place to replace that. A study commission, whether blue ribbon or otherwise, is not an adequate response to the very real needs that we have in our communities.

I have just a couple of questions. One is on 202, Dr. Franzen. You pointed out your activity with that particular program and we are very pleased to hear that it has worked as well as it has in New Jersey. I think that the experience is shared across this country with regard to this program.

You specifically pointed out the congregate dining aspects of it. Has the Housing and Urban Development Administration proposed any rule changes with regards to the meal programs with regard to your 202 program? Are you aware of any rule change proposals?

One that has been considered that I received word back from my own community was that they could not provide a mandatory meal during the day for residents of 202. Have you come into contact with that?

Mr. FRANZEN. They have not indicated that to us. We have via the grapevine heard of this in other parts of the country, but at least our office has not contacted us.

Mr. VENTO. What would be the impact of that change in terms of offering that meal program? You have pointed out, and I think properly so, that other ancillary services—the congregate dining and the other things—are very important to the 202 program.

Mr. FRANZEN. To operate a congregate service demands a volume and if this becomes a choice in the operation, if that is what you

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are pointing out, you do not have the volume to maintain the personnel to operate this.

Now there are other housing units that do not have congregate services and when people were applying for our place they complained that they did not wish it. I mention that, you know, we in this particular program were trying to serve those who needed it. We have one man who was getting a blood transfusion on a regular basis. He came the other day and said, Pastor, I have not had a transfusion since I moved in here.

This kind of personnel needs that and we have to try and find those people who really need that particular option and then bring them into that building, but we just cannot have a restaurant kind of opportunity where you wish or wish not to offer it.

Mr. VENTO. I am glad you know about the 202 program in housing, because when I asked the Secretary when he was here 2 or 3 weeks ago, he did not know what I was talking about when we talked about the mandated meal program. Do you disagree with the fact that it remains pretty much operating like it has? Do you find great problems with it the way that it has functioned?

You know, the feeling we get is that there is an effort to pull back, and destroy the credibility of the program and the workability, then you just say well, since it is not working I think we will eliminate it, which disturbs me.

So although we can see imperfections in these programs that is just a little example of the type of leverage, the type of harrassment as I would characterize it that is being used. You know, we can talk about management problems, we can talk about pipeline, and you have done well in terms of debating those issues.

But I think it is very heartening to have your support out there and we very much appreciate it. A year ago maybe things did not look like they were going to be as bad, but what we are headed for right now is an administration that is completely withdrawing from the entire assistance program. At this rate we will not be in housing in 2 years. We all know it has never been an entitlement program. That does not make it any less important.

We have to maintain a presence. We have to encourage the private sector. We have to work with the State and local governments in the absence of the national government in terms of this particular role. We know that housing programs will not take place even in the most progressive communities. We are talking about Montgomery County. We are talking about Fairfax. We are talking about my area, Minneapolis-St. Paul. We are not communities like Cleveland that have serious problems, but nevertheless in the absence of the national government here I do not see the private sector coming in and taking over the role.

The bishop from Cleveland mentioned that there is a necessity for 600,000 to 700,000 units a year. The most we have ever provided is probably 350,000 and there is plenty of room for them to come in and pick up a piece of the responsibility if they want it. I do not imagine any of you have discouraged them. I have not and I do not think the national government has.

So I think we continue to look at that, but I think to pull away the support that we have, even at an inadequate level, at a time when it is not being met causes me distress and I am pleased to see

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that you are speaking out on what I think really represents a great issue that we face. This subject, this area, has sustained more cuts than any other in the 1981 budget and the proposals to flatly refuse and deny this to people I think it very great.

You point out that we have people that advocate family lifestyles and so forth but yet what is more important than having a shelter where you can keep that family together. I do not know of any other. I do not know of any change of disposition of the goals of the people of this country, and I do not know why the new administration pursues that goal or that commitment.

I think it is very, very high on the agenda. I hope that before great damage is done that we can at least preserve the infrastructure because we all know that at great times of recession it is hard for the Government to meet all the needs, but that does not mean we walk away from them, and that is not the reason that we have a great deficit in this particular year.

It is not because of the fact that we are trying to meet these commitments. Unfortunately it is because it is on the revenue side of the picture. It is on the exspenditure side, but not in terms of meeting social commitments. It goes to the needs in terms of defense and other areas. It maybe should not weigh so heavily in terms of where we meet the responsibilities.

I have no questions. I appreciate your listening to me. I listened to you. [Laughter.]

I want you to know that you are having an impact. It is getting through and we intend to fight as hard as we can and we are happy to have your support. Thank you very much. Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you, Mr. Vento. Mr. Vento did make one very significant point because we had witnesses last week and some this week from other areas of housing, assisted housing—public housing, for example—and there is no question that their testimony from one end of the country to the other was to the systematic practices that the administration is carrying on to bring their self-fulfillment of their wish of privatizing public housing, turning it over to private enterprise by so discouraging good management that they will either force them into bankruptcy or into such a box that they cannot manage properly.

What means the administration thinks it can find to get private enterprise to assume public housing I have not heard and nobody else has either. Yet Mr. Vento has raised a very good point because in some related areas, not necessarily in housing, you have had this manifestation also on the part of the administration and then justification for the elimination of the programs.

But at this point we are confronted with the matter of survival. This is what we call our bill, a survival bill. As I said, the specific questions that I thought would have you have taken care of even indirectly but very specifically in some cases.

So thank you again very much and I hope we can have a continuing communication and dialog. We need your help.

The subcommittee will stand in recess until 2 p.m. in this same room.

[Whereupon, at 12:55 p.m., the subcommittee recessed, to reconvene at 2 p.m., the same day.]

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AFTERNOON SESSION

Chairman GONZALEZ. The subcommittee will please come to order.

We will resume the session, and recognize first our distinguished colleague from Oklahoma, a former member of this committee with great distinction. I think he looked upon it as a promotion when he moved over, but we will not accept that.

Mr. LUNDINE. Mr. Chairman.

Chairman GONZALEZ. Yes, Mr. Lundine.

Mr. LUNDINE. In addition to welcoming my colleague from Oklahoma, I wonder if I could put a short statement in the record at this point.

Chairman GONZALEZ. Without any objection, so ordered.

[The statement of Congressman Lundine follows:]

BRIEF STATEMENT OF CONGRESSMAN STANLEY N. LUNDINE

Let me state at the outset that I consider the Administration's budget recommendations for the Farmers Home Administration to be totally unacceptable. Funding for your agency's housing programs would be reduced by 70 percent from current budget levels, with such key programs as the Sec. 515 rental housing program cut by as much as 80 percent. Even the funding provided in the current budget is sufficient to meet only a small fraction of the housing need in the credit-starved rural areas of the nation. These new proposals would eliminate FmHA housing activity in the high-cost rural areas of the Northeast and spread what little funding is provided so thinly across the country that it would be uselss in addressing rural needs or in helping to stablize the rural economy.

In the past year, we have seen many parallels drawn between current political and economic conditions and those existing in the 1930s. Nowhere are such parallels becoming as accurate as in rural areas. This Administration's policies are undermining farm income, restricting farm credit and, with these proposals, will severely curtail housing and community assistance. Such policies could foster the recurrence of the widespread farm and home foreclosures and resulting poverty and homelessness we saw in rural areas in the 1930's.

Mr. LUNDINE. What is the word from rural America?

Mr. WATKINS. Rural America needs help. [General laughter.]

Chairman GONZALEZ. Thank you, Congressman. You are recognized at this point, and you may proceed as you see fit. You have a prepared statement. If you wish to present that for the record, as you have written it, and then summarize it, that is fine. If you wish to stick to the text, that is fine. It is up to you.

STATEMENT OF HON. WES WATKINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA, AND CHAIRMAN, CONGRESSIONAL RURAL CAUCUS, ACCOMPANIED BY FRANK G. TSUTRAS, CAUCUS DIRECTOR, AND JIM JOHNSON, LEGISLATIVE ASSISTANT

Mr. WATKINS. Thank you, Mr. Chairman.

I will enter my prepared testimony as part of the record, and speak from the heart, if that is all right.

Chairman GONZALEZ. Without objection, so ordered.

Mr. WATKINS. Thank you. First, I would like to introduce to the committee, on my right, the Director of the Congressional Rural Caucus, Frank Tsutras, and on my left is Jim Johnson, who has been working with me, with the Rural Caucus, and also with the rural enterprise zone legislation that we hope will receive some attention along with the urban problems in this country.

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Mr. Chairman, I come before you to support H.R. 5731, the Housing and Community Development Amendments of 1982, as it recommends rural housing and community development program levels established as part of the Budget Reconciliation Act of last year.

Mr. Chairman, I want to express to you and others—as I think I have done probably informally and in private discussions—the fact that over one-third of the counties in rural America do not have private lending agencies to meet the needs of housing for our people. Over one-third of the counties in the United States do not have a single savings and loan. Needless to say to you and other members of this committee, as bad a shape as the savings and loans in this country are in, they are not looking forward to going 100 miles or so into rural areas to try to make loans. Most of them are trying to survive. The savings and loans are trying to make what applications they can close to their local offices.

Mr. Chairman, I am here mainly to support the fact that in rural America, where we have nearly one-third of the people, we have over 40 percent of the dilapidated housing. There are over a million homes in rural America that do not have running water today. Many of these do not have adequate heating or adequate insulation and we find that due to the inadequacies of housing, it becomes impossible for many of our citizens to live and work and raise their families in rural areas.

I think that with the problems facing us in unemployment, if you will look at the rural areas, where agriculture today is facing the worst disaster economically since the Great Depression, you will find that unemployment is higher by twofold in rural America than what it is in the United States as a whole. We find that 8 million rural houses, as I mentioned, do not have access to safe drinking water, something we take for granted, and do not have sanitary waste disposal services.

Mr. Chairman, a number of years ago my family moved to Oakland, Calif., one of four trips during the Okie-Arkie movement a number of years ago. We thought we were moving into an upgraded situation, because we had running water. We did not realize that we were moving into the ghetto of Oakland, Calif., because we had running water. We had had to carry the water from springs and all that, and we still have a lot of housing with that same problem in rural America today.

Mr. Chairman, I think the best summary is a couple of charts I have provided in the back of my testimony. Basically, as we look at rural housing from fiscal year 1982 to 1983, we see that section 502, the low-income loans, is being reduced 60.9 percent.

Mr. Chairman, I speak to you today primarily because of a concern, a deep commitment, and also from experience of being a homebuilder, formerly building homes in rural America. That is the particular program that I utilized. I sold my homebuilding operation, thank goodness, when I came to Congress, but that was a program that we utilized to provide what small housing we could for the people in rural America.

I had a friend call me the other day and say, basically, that in the housing program in the budget, there are probably less than four houses per county throughout the United States provided

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under this program. Four houses. Now, we have a dilemma facing us. You will see under section 502, moderate housing in fiscal year 1983 has been decreased by 100 percent.

Mr. Chairman, we do not ask for too much down home in rural America, but you will see also the section 515 subsidy program—the one little program with which we can get a few apartments—has been decreased by 78.7 percent. The remodeling program is to try, Mr. Mitchell, to provide some upgrading for the real low-income people in some kind of sheltered frame situation—which many of our lowest of income people live in. The 504 remodeling program has been decreased by over 25 percent this coming year.

Now, in the rural sites, many communities have not had any type of rural sites available. We are just trying to move forward and trying to provide adequate building sites. We see that decreased over 60 percent.

Program after program that we looked at in rural America—we have highlighted with the yellow hi-liter—all those programs, every last one of them has been significantly decreased. You can see there is hardly a white spot left, because most of them have been sharply curtailed.

Mr. Chairman, the only thing I would like to say in summarizing—and I do not want to belabor the point, because I think I have expressed it before this committee for a long time—is we are starting from behind the eight ball. We are starting from the lowest of points, and for us to receive such a tremendous cut at that level—if we had just had adequate housing in the past—but we have not had adequate housing in the past. As a result, we find ourselves with a scarcity of funds that will eliminate housing—basically eliminate it—in rural America.

That is something that I as an individual, in order to serve the people in rural America, feel that I must sound off and voice a great concern and ask you, Mr. Chairman and members of this committee, to try to restore rural housing to at least the level at which we were this year.

Mr. Chairman, members of the committee, I appreciate this opportunity to come and express my feeling and my concern. I would be happy to entertain any questions. Let me say, Mr. Chairman, I do not know if I upgraded myself by going to the Appropriations Committee. [Laughter.]

I have to admit, I got there just as we ran out of money. I do not like, doing all this cutting. It is kind of tough to be on an Appropriations Committee and just be cutting all the time. So, I do not know if I upgraded myself or did myself any good or not, but I am glad to be back and see some familiar faces on this committee.

[The prepared statement of Mr. Watkins follows:]

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Congressional Rural Caucus

Members of Congress Working for Rural America

U.S. House of Representatives • 309 House Office Building, Annex # 1 • Washington, D.C. 20515 • 202/225-5080

Executive Committee

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Bill Hendon, (R-NC)
Gillis W. Long (D-LA)

Wes Watkins, (D-OK), Chairman
Ed Jones, (D-TN), Vice Chairman
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STATEMENT OF THE HONORABLE WES WATKINS (D-OK), CHAIRMAN OF THE CONGRESSIONAL RURAL CAUCUS, BEFORE THE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT, HOUSE COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS, CHAIRED BY THE HONORABLE HENRY B. GONZALEZ (D-TX), MARCH 25, 1982, WASHINGTON, D.C.

Mr. Chairman, I commend you and the members of your subcommittee for these hearings to discuss credit problems and proposed legislation to set authorized funding levels for housing and community development programs.

I am pleased to express my personal support for HR 5731, HOUSING AND COMMUNITY DEVELOPMENT AMENDMENTS OF 1982, which recommends rural housing and community development programs at levels established as part of last year's Budget Reconciliation Act.

Mr. Chairman, I also congratulate you for your outstanding presentation before the Housing Assistance Council's National Housing Conference at Trinity College in which you, as a recognized leader in housing and community development activities, let it be known that you would continue to provide strong direction and leadership within the Congress for the preservation of programs to assure adequate and affordable housing for rural America.

The Administration's recent arbitrary determination that "there is no shortage of mortgage credit in cities between ten and twenty thousand population" was rescinded, providing eligibility for approximately 426 small cities. In addition to Durant and McAlester from my District, my hometown of Ada was included.

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On March 2, 1982, I reported to Chairman Fernand J. St. Germain and to you the sentiments of several members of the CRC Advisory Team, CRC, and other farm and rural development advocates that the Administration's proposals for housing and community development credit programs will further aggravate the situation in rural America. It was recommended that the FY83 funding for rural housing credit programs be set at the actual FY81 level or, at the absolute minimum, the estimated FY82 level. HR 5731 provides such alternatives for rural housing and community development.

Based on need and compassion, there are many reasons to warrant and fully justify the levels for the rural housing provisions in HR 5731. The seriousness of the Administration proposals and the impact on the residents of small cities and rural areas is most vividly reflected in the Farmers Home Administration budget. This is brought into perspective by the summary reports of FmHA loan and grant programs, included herein as ATTACHMENTS #1 and #2.

The home construction industry is dominated by small builders. Thousands of these home builders have closed down in the longest housing slump since the Great Depression. For example, private housing starts totalled 2 million in 1978..... 1.72 million in 1979.....1.3 million in 1980.....1.11 million in 1981.....and an estimated 1.17 million in 1982.....1981 was the worst year for the housing industry since 1946 !

The National Rural Housing Coalition notes that over 40%, or 1.9 million units, of bad housing is located in rural America.....rural areas have a severe lack of affordable credit.....800 of the nation's rural areas do not have a savings and loan association.....unemployment in rural areas is 20% higher than in urban areas .....unemployment in the construction industry is at a 15 year high.....over 8 million rural houses do not have, and/or cannot afford, safe drinking water and sanitary waste disposal services:....and migrant and farm workers need over 1.1 million housing units.

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The Administration has practically brought about the demise of traditional Federal rural development programs, leaving solutions to Office of Management and Budget "alternatives" of "other programs of assistance". Many of the Administration's proposals to do away with rural housing and rural community development programs are intolerable. HR 5731 can help offset such adverse impact.

WASHINGTON POST staff writer Sandra Evans Teeley reported on the Administration's plans to terminate government-assisted rental housing construction and make the poor pay more of their own housing costs. Substantial cuts in credit programs will impact on the Government National Mortgage Association which has helped middle income families buy their homes for decades through the Federal Housing Administration- and Veterans Administration-insured mortgages.

National Association of Home Builders Rural Housing Committee Chairman Bob Rogers stated that FmHA programs have helped over 1.5 million low and moderate income rural families with $25 billion in loans over the past 30 years with a cumulative loss of a miniscule 0.14 percent.

Rogers also noted that private financing will not, as the Administration contends, pick up the slack, because fewer than one-half of the nation's counties contain thrift institutions.....and because there are few incentives for private industry to serve rural areas where the volume of mortgage lending is low and the servicing costs are necessarily high.

It appears as if the housing industry is actually challenging.....if not refuting.....the credibility of the Administration's economic recovery program. In fact, there is concern that the Department of Agriculture and Farmers Home Administration may have "rolled over and played dead" rather than do battle with the Office of Management and Budget recommendations to speed up the demise of FmHA rural development programs.

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The Administration has announced its urban enterprise zone proposals, however, it opposes the rural enterprise zone program proposed in HR 4576, RURAL ENTERPRISE ZONE AND DEVELOPMENT ACT OF 1982, which has 65 bipartisan cosponsors.

As in the proposed higher authorized funding levels for FmHA farm, community, and business and industry programs in the Agriculture Committee.....it is imperative that the Banking, Finance, and Urban Affairs Committee report authorized funding levels for rural housing and community development programs at least and not less than the FY82 levels proposed in HR 5731.

Thank you.

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(ATTACHMENT #1)

FmHA RURAL HOUSING INSURANCE FUND AND HOUSING SUPPORT PROGRAMS ($$ = MILLIONS)	FY81 #1	FY82 #2	Differences (81 +/- 82) #3	PERCENT #4	FY83 #5	Differences (82 +/- 83) #6	PERCENT #7
RURAL HOUSING INSURANCE FUND							
Sec 502 low income loans	2,327.5	2,300.0	-27.5	-1.2	900.0	-1,400.0	-60.9
moderate income loans	257.8	430.0	172.3	66.8	0	-430.0	-100.
guaranteed above moderate income loans	5.7	0	-5.7	-100.	0		
Sec 515 rental (sub) loans	842.5	940.0	97.5	11.6	200.0	-740.0	-78.7
rental (unsub) loans	22.3	0	-22.3	-100.	0		
Sec 504 very low income housing repair loans	17.9	24.0	6.1	34.3	24.0		
farm labor loans	18.6	25.6	7.1	38	19.0	-6.6	-25.8
Sec 524 rural housing site loans	0.5	5.0	4.6	1,001	2.0	-3.0	-60.
TOTAL RHIF LOANS	3,492.6	3,724.6	232.0	6.6	1,145.0	-2,579.6	-69.3
HOUSING SUPPORT PROGRAMS							
Farm labor housing grants	10.5	22.0	11.5	109.2	23.2	1.2	5.6
Very low income housing repair grants	22.8	15.0	-7.8	-34.1	12.5	-2.5	-16.7
Rural housing supervisory assistance grants	1.0	0	-1.	-100.	0		
Mutual and self-help housing grants	13.2	5.2	-8.	-60.3	0	-5.2	-100.
Construction defects program	0.7	2.0	1.3	177.4	2.0		
Rental assistance program	403.0	398.0	-5.0	-1.2	185.0	-213.0	-53.5
Self-help housing site loans	0.5	2.0	1.5	321.1	0	-2.0	-100.
TOTAL HSP GRANTS & LOANS	451.6	444.2	-7.4	-1.6	222.7	-221.5	-49.9

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INCLUDES DECREASED ITEMS ONLY

(ATTACHMENT 1 - A)

SUMMARY OF FARMERS HOME ADMINISTRATION
RURAL HOUSING INSURANCE FUND.....AND..
HOUSING SUPPORT PROGRAMS ($$$ = MILLIONS)

RURAL HOUSING INSURANCE FUND (RHIF)

FROM FY81 to 82, the	Sec 502 low income loans	decreased by 1.2%
	Sec 502 guaranteed above moderate inc loans	decreased by 100%
	Sec 515 rental (sub) loans	decreased by 100%

HOUSING SUPPORT PROGRAMS (HSP)

FROM FY81 to 82, the	Very low income housing repair grants	decreased by 34.1%
	Rural housing supervisory assistance grants	decreased by 100%
	Mutual and self-help housing grants	decreased by 60.3%
	Rental assistance programs	decreased by 1.2%
	TOTAL HOUSING SUPPORT PROGRAMS	decreased by 1.6%

RURAL HOUSING INSURANCE FUND (RHIF)

FROM FY82 to 83, the	Sec 502 low income loans	decreased by 60.9%
	Sec 502 moderate income loans	decreased by 100%
	Sec 515 rental (sub) loans	decreased by 78.7%
	Sec 504 farm labor loans	decreased by 25.8%
	Sec 524 rural site loans	decreased by 60%
	TOTAL RURAL HOUSING INSURANCE FUND LOANS	DECREASED BY 69.3%

HOUSING SUPPORT PROGRAMS (HSP)

FROM FY82 to 83, the	Very low income housing repair grants	decreased by 16.7%
	Mutual and self-help housing grants	decreased by 100%
	Rental assistance program	decreased by 53.5%
	Self-help housing site loans	decreased by 100%
	TOTAL HOUSING SUPPORT PROGRAMS	DECREASED BY 49.9%

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(ATTACHMENT #2)

SUMMARY OF FmHA FARM, RURAL DEVELOPMENT, AND RURAL HOUSING CREDIT PROGRAMS ($$ = MILLIONS)	FY81 #1	FY82 #2	Differences (81 +/- 82) #3	PERCENT #4	FY83 #5	Differences (82 +/- 83) #6	PERCENT #7
FmHA FARM, RURAL DEVELOPMENT, AND RURAL HOUSING CREDIT PROGRAMS - AMOUNT OF LOANS AND GRANTS ($$ = MILLIONS)							
Agricultural Credit Insurance Fund (ACIF)	8,092.7	3,909.6	-4,183.1	-51.7	3,868.0	-41.6	-1.1
Rural Housing Insurance Fund (RHIF)	3,492.6	3,724.6	232.0	6.6	1,145.0	-2,579.6	-69.3
Housing Support Programs (HSP)	451.6	444.2	- 7.4	-1.6	222.7	-221.5	-49.9
Rural Development Insurance Fund (RDIF)	1,662.3	1,055.0	607.3	-36.5	430.0	-625.0	-59.2
Rural Development Grant Programs (RDGP)	215.0	127.2	-88.0	-40.9	120.0	-7.1	-5.6
TOTAL FmHA APPROPRIATED PROGRAMS (TFmHAAP)	13,914.3	9,260.6	-4,653.7	-33.5	5,785.7	-3,475.0	-37.5
Rural Community Fire Protection Grants (RCFPG)(FS)*	3.5	3.3	-0.2	- 6.4	0	-3.3	-100
Sec 111 Rural Development Planning Grants (RDPG)(ORDP)**	3.0	0	-3.0	-100			
(* Transferred to Forest Service) (** Transferred to Office of Rural Development Policy)							
FmHA FARM, RURAL DEVELOPMENT, AND RURAL HOUSING CREDIT PROGRAMS - NUMBER OF LOANS AND GRANTS							
ACIF	210,339	96,576	-113,763	-54.1	89,011	-7,565	-7.8
RHIF	96,616	97,220	604	0.6	34,188	-63,032	-64.8
HSP	9,981	7,063	-2,918	-29.2	6,208	- 855	-12.1
RDIF	3,268	1,680	-1,588	-48.6	970	- 710	-42.3
RDGP	909	432	- 477	-52.5	370	- 62	-14.4
TOTAL FmHA AP	321,113	202,971	-118,142	-36.8	130,747	-72,224	-35.6
RCFPG (FS)*	3,026	2,577	- 449	-14.8	0	-2,577	-100
Sec 111 RDPG (ORDP)**	107	0	- 107	-100	0		

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INCLUDES DECREASED ITEMS ONLY (ATTACHMENT #2 - A)

SUMMARY OF FARMERS HOME ADMINISTRATION
FARM, RURAL DEVELOPMENT, AND RURAL
HOUSING CREDIT PROGRAMS ($$$ = MILLIONS)

SUMMARY OF FmHA FARM, RURAL DEVELOPMENT, AND RURAL HOUSING CREDIT PROGRAMS
AMOUNT OF LOANS AND GRANTS ($$$ = MILLIONS)

FROM FY 81 to 82, the	Agricultural Credit Insurance Fund (ACIF)	decreased by 51.7%
	Housing Support Programs (HSP)	decreased by 1.6%
	Rural Development Insurance Fund (RDIF)	decreased by 36.5%
	Rural Development Grant Programs (RDGP)	decreased by 40.9%
	TOTAL FmHA Appropriated Programs (TFmHA AP)	decreased by 33.5%
	Rural Community Fire Protection Grants (RCFPG)(Transferred to Forest Service)	decreased by 6.4%
	Sec 111 Rural Development Planning Grants (RDPG)(Transferred to Office of Rural Development Policy)	decreased by 100%

FROM FY82 to 83, the	ACIF	decreased by 1.1%
	RHIF	decreased by 69.3%
	HSP	decreased by 49.9%
	RDIF	decreased by 59.2%
	RDGP	decreased by 5.6%
	TOTAL FmHA AP	decreased by 37.5%
	RCFPG	decreased by 100%

NOTE: Agricultural Credit Insurance Fund includes DISASTER ASSISTANCE PROGRAM funding which is actually available in "such sums as necessary". (House Committee on Agriculture)

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Chairman GONZALEZ. Let me thank you once again, Congressman. I personally want to thank you for your support of H.R. 5731. It is the only thing that we have that we could put together with a consensus. As you know, that is little enough, but nevertheless, at least it means survival in the areas of the budget presented by the President.

Let the record show that the gentleman from Oklahoma, when he was a member of this committee, that he was a strong supporter of some of the basic substantive legislation, and as a member on the Appropriations Committee, and with the dilemma that he has very well described, nevertheless he has been instrumental in keeping our rural housing programs alive.

Mr. WATKINS. I have said in this committee here, and I think my friend, Mr. Mitchell, from Baltimore, certainly has said it, that if we think the minorities have an economic problem in our cities, people need to look at rural America, the economic plight of the minority, Indian, black, Mexican American, everybody. The economic plight of the rural minority is worse than even the conditions in the inner cities.

Chairman GONZALEZ. As you know, last year this subcommittee for the first time went into the very specific rural areas; farm labor, migrant labor, from the Eastern Shore, Delaware, Maryland, Virginia, all the way over to California, and so you are certainly speaking the truth. Housing conditions were unbelievable, in 1981, in the United States.

But I think the record should also show that maybe the gentleman wishes to correct that, and I am considering him a lot younger than that, that you are from the postdustbowl era. You went to California. I did not think you were born that long ago.

Mr. WATKINS. Mr. Chairman, where I was born was the problem. [Laughter.]

Chairman GONZALEZ. I would not request your age, but——

Mr. WATKINS. Mr. Chairman, I was born in 1938. Prior to my reaching my eighth birthday, we had left the rural depressed poverty area of Arkansas-Oklahoma four times in the search for a job for survival. My mother worked as a welder in the shipyards during the war in Oakland, Calif. Like I said, we did not realize we were moving to a ghetto, because we did not have running water where we came from, and we did not have housing that had any type of window structures or basically anything else.

So, Mr. Chairman, I take pride in where my roots are, but I would like to build a better condition for a lot of the people in that area. Probably I would not have been able to relate this experience other than the fact of where I was born and where I grew up, because when I left to go off to college was the first time I had ever seen a combine. We had not seen that in the hill country, the rural area, the depressed area in southeastern Oklahoma. I am glad you feel I have not lived that long, but there are some miles along the way.

Mr. Chairman, I plead with this committee to take time to address rural America's problem-housing. I have got to ask and depend on you all to take the time to look at it, because basically, over a long period of time, our committee has not been made up of people from rural backgrounds. There are many from the larger

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cities, and we need and ask for some time for these to be looked at. For instance, we cannot build speculative housing in rural America. Finally, a few years ago, we got a conditional commitment, but that was not a commitment to build a speculative house. I think the Farmers Home Administration should be directed to come up with ways for a builder to have a commitment to build a house so he can then go out and finance the construction on that commitment.

The program we initiated, I might say, Mr. Chairman, I wrote before I came to Congress in order to provide packaging so the builder would take a package into the Farm Home office. We have to upgrade the means of providing housing in rural America. We do not have that delivery system that I have mentioned so many times to this committee.

I would be happy to work with any of the subcommittee members at any time on this.

Chairman GONZALEZ. In view of the fact that recently the administration had intended to cut off aid to Ada, Okla., and some other communities between 10,000 and 20,000 from the eligibility from FHA, do you think we ought to have some statutory language to insure that they will not?

Mr. WATKINS. I would support such statutory language. I might say that last week before the Agriculture Subcommittee on Appropriations on which I serve, when Mr. Shuman and Frank Naylor came, I posed the question. I was very thankful to see that they have responded to your committee or our committee, or a combination of both, in allowing communities of 20,000 and below to be serviced by the Farmers Home Administration again, because as I mentioned, Mr. Chairman, there is no financing. I am not talking about an intrusion of the Federal Government. There is no intrusion if there is not any money there.

Chairman GONZALEZ. That is right.

Mr. WATKINS. We need to invest capital in basic things like homes.

Chairman GONZALEZ. I am glad to hear that. We probably will be calling on you.

So, thank you very much. We will be working with you.

Mr. Wylie? We will all have to wait until the next time.

Mr. WYLIE. Thank you, Mr. Chairman.

I want to congratulate you, Wes, on your interest in this subject. I want to acknowledge your persistence and your commitment to the problem, and say to you that we really do miss your soft-sell approach on the Banking Committee. [Laughter.]

We were privileged to have you on the committee for, how long, three terms?

Mr. WATKINS. Two terms, 4 years.

Mr. WYLIE. We are glad to see you back here today, and we will certainly take your suggestions under advisement. Thank you very much for your testimony.

Chairman GONZALEZ. Thank you very much, Mr. Wylie.

Mr. Mitchell?

Well, Mr. Lundine was here first.

Mr. LUNDINE. Mr. Watkins, I am very fascinated by your past and your background. I am really more interested in the position

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that you sit in today as a member of that Appropriations Committee that has a reputation of being cost conscious, "meaner than a bunch of junkyard dogs."

I gather from your testimony that you do not agree with the administration's proposal to cut section 502 by 60 percent next year.

Mr. WATKINS. How did you guess? [Laughter.]

You are right, Mr. Lundine.

Mr. LUNDINE. You do not agree with the idea of cutting the section 515 program by 79 percent next year?

Mr. WATKINS. That is correct.

Mr. LUNDINE. Even though you are a member of the Appropriations Committee, you truthfully believe that we should fund these programs on some kind of a basis similar to what we did in the last fiscal year?

Mr. WATKINS. Mr. Lundine, if we do not receive even this inadequate amount, we will have no housing in rural America. There is just no housing.

Mr. LUNDINE. Well, that is very interesting. Now, I want to know what your experience is, whether it is the same out there in the Southwest that we are experiencing in the Northeast rural areas with respect to this year's funds. We have noted that the Farmers Home is not spending very much this year. They are being very prudent about their money to the extent that almost none of those commitments that you talk about that are being made. I was wondering if you are experiencing the same degree of cost consciousness out there in the Southwest rural areas as we are in the East.

Mr. WATKINS. I think I have detected a change in some priorities by directive or otherwise, where the collections are important, but they become more stringent in making loans, and doing other services. This becomes a problem when it is the only loan office in the county. If you had four or five loan offices in the county, it would be different, but that is the only loan window for housing in rural America, and as I said, that is the case in nearly half the counties in the United States. You find that we are not receiving adequate financing for necessary housing.

Mr. LUNDINE. So you are noticing that the obligations under the Farmers Home programs are a little slow this year?

Mr. WATKINS. Definitely.

Mr. LUNDINE. Wes, in all seriousness, I would like to just say that you really have been a leader on this committee in your capacity as chairman of the Rural Caucus. It took me a couple of years to convince the Rural Caucus that there were actually rural areas in New York State, but I am pleased to work with you in both of those capacities. I really appreciate your taking the time to come here today, not just because we are both advocates, or try to be advocates for rural housing and the need for rural American issues generally, but because you have such a great way of putting them over. We really appreciate your being here today.

I think these are important issues. You bring up a lot of practical facts and circumstances, such as the lack of credit available from elsewhere in rural areas, and I really appreciate your coming.

Mr. WATKINS. Mr. Lundine, I built houses in rural America and I had to build them in a five-county area in order to have permanent contractors and subcontractors, so I could keep them busy. I

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couldn't build them in one community, because one little rural community cannot absorb that many houses at one time, so I built in about a five- or six-county area. When I see that there is no other financing available, then the 502 interest credit—and let me say, I would highly recommend, Mr. Chairman, that we reinstitute the guaranteed loan program and try to get that program going. Only in Oklahoma did this program start working within 1 year. It takes time to get the Farm Home supervisor to acknowledge working with a banker on guaranteed loans.

Many times we shove the unknown aside. That is what many States did, and that is what many of the county supervisors in Oklahoma even did, but I think we need to reinstitute this guaranteed loan program, but it has been wiped out 100 percent.

I would even say, Mr. Lundine—I know you and Mr. Hubbard are both members of the Rural Caucus—I think, that if we do not find some kind of changes, we need to have an ad hoc task force set up to see about completely changing the delivery of housing in rural America. We need to set up a system that will allow us to enter the insured mortgage, like the FHA and HUD, in providing a system of delivery some way in rural America. We cannot continue without it.

Mr. LUNDINE. Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you.

Mr. Mitchell.

Mr. MITCHELL. Thank you, Mr. Chairman.

Congressman Watkins, let me just say that I have been around a little longer than you have—not as long as the chairman—but I do not know of any person in this Congress who has been a more forceful and articulate spokesman for rural America as you, not only on this committee. I remember a speech you made on the floor of the House that was an impassioned speech for rural America. I think it would be derelict to my own sense of responsibility if I did not take this occasion to thank you for being the forceful, articulate spokesman for rural America that you have been.

I come from an urban area, highly urban, yet I do not think that I can take the parochial point of view on any of these issues. This is one Nation. I have gotten some flak in my district about why I voted for some farm bills, but I take the position that we cannot be isolated. We are components that enjoy some advantage within one system, and now we are suffering under this dreadful pain known as Reaganomics. So, I am glad that you are supportive now, as you have been in the past, of rural America.

This administration has a theory that if indeed we do certain things to enhance the private sector, then ultimately the private sector can take on the responsibility for all the programs that have been cut. I must confess to ignorance about the private sector on home construction in rural America. Could you enlighten me on that?

Mr. WATKINS. Mr. Mitchell, I appreciate you serving up that home run for me. Stop and think with me, you and members of the committee—and I said this to the President in the Cabinet room. There is no Fortune 500 in depressed rural America. As I said to the President, "what private sector, Mr. President?" We do not have an intrusion in financing down there. We do not have branch

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companies there of the Fortune 500. Basically, we have some small rural businesses, retail businesses, maybe some lumber businesses, some cattle and farming people, who are barely surviving. They are on the brink of bankruptcy. We are going to see the largest number of bankruptcies in my lifetime among many of those people this year.

As I said to the President, "Mr. President, we do not have the private sector to take care of what you are saying in rural America." If you will stop and think about it with me, that is exactly the truth.

Mr. MITCHELL. Thank you.

This administration seems to be capable of performing miracles. Maybe they will create some private sector down there in rural America. I will not belabor the point. Thank you for being here, and thank you for sharing your thoughts with us.

Mr. WATKINS. I would share this with you. I am going back to the basics and putting together an industrial innovation center in that depressed rural area. I am building industrial incubators. We are trying to help ourselves as much as we possibly can to build private sector jobs. I have gone out and raised nearly $300,000 from foundations, trying to hold onto a program that I am trying to utilize in order to just build some jobs in chronic unemployed areas, areas that have had 15 and 20 percent unemployed since the Great Depression. You know, the Depression was over, but we never got out of the recession in many of my areas.

Mr. MITCHELL. Excuse me just a minute. You sound like a brother now. You sound like you are speaking for the black experience. [Laughter.]

Mr. WATKINS. Like I have always told you, let me say this. I know Mr. Mitchell's time has elapsed. I have quoted you many times about one of the dissertations when you were really preaching the Gospel up there to me. I was sitting down on a lower level. I remember you were really preaching the Gospel, and giving a dissertation about something, and you paused, and you said, "and this would be good for Wes's people, too." I have told a lot of people I knew that you had a conscience and you were working in the right direction.

Chairman GONZALEZ. The only warning I have is, beware of Arab investors. [Laughter.]

Mr. WATKINS. You know, that is true. I have thought about that lots of times. [Laughter.]

If somebody had come to me and said: "Hey, some fellow wants to make several million dollars worth of investment in that poverty area, that low rural depressed area," you know I may have gone down there. Now I think I would probably start backing up pretty fast, but you are right about someone putting that bait in front of you.

Chairman GONZALEZ. Just double check whether he is a genuine Arab. [Laughter.]

Mr. Hubbard.

Mr. HUBBARD. No questions.

Chairman GONZALEZ. Mr. Vento.

Mr. VENTO. Mr. Chairman, it is a real pleasure to welcome back Wes, especially when he is bringing the message that he is, that he

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has gone out there and united a group on a bipartisan basis that is going to support housing. I hope that that is the message he is telling us, because we are in dire need, both in our community and I guess you are telling us in yours. We appreciate it.

The only thing that is strange now is the universe of people who need assisted housing has expanded in light of the economy. I guess that has happened out your way, too. The Farmers Home Administration gave us some testimony. I was looking over it. Just to give you a little preview of what the response is they are going to try to continue to meet the needs for commitments they made, but there is not much room left over for commitments. That does not bode very well, I guess, in Oklahoma or in other parts where these rural housing programs take effect. The Indian program is completely dessimated. I talked to the officials on that. You might be interested to know, because I know you have a keen interest in that as well, they are going to study it, they told us. They know a hell of a lot less about housing than you and I, and they have got a long way to go before they come up with any type of program to address that particular need. I think the question that we asked is, meanwhile, what the hell are we supposed to do?

Mr. WATKINS. Well, I do not know what the answer is. We have got to move forward. Let me say, I do not know if Mr. Shuman or "Sox" (Johnson) have taken a comprehensive look at what the backlog of housing might be today in rural America, but Mr. Cavanaugh, who is the predecessor to Mr. Shuman, said from this table that there are over 350,000 applications backlogged in the Farm Home offices across the United States, of people needing and wanting some type of housing in rural America. I can only imagine that has probably grown a great deal more. I do not know exactly what that figure might be today, but you see, we do not have savings and loans. We do not have mortgage financing banks to work with insured mortgages like FHA, which under the Federal Housing Administration, you have to have a banker to work with you. We do not have the insured mortgages program, Mr. Vento, in rural America.

So, really, again, what I am saying, we have only got one window, one loan window for housing in most of the counties, and, Mr. Hubbard, that is Farmers Home Administration.

Mr. VENTO. Well, we appreciate your testimony, and look forward to working with you in maintaining these commitments to rural and urban housing.

Mr. WATKINS. Thank you very much.

Chairman GONZALEZ. Mr. Hubbard?

Mr. HUBBARD. Mr. Chairman, even though I did not have any questions for my friend and colleague, I would like to thank him for coming before our subcommittee, and also congratulate him on his excellent work for rural America. He and I have similar districts. We represent the thinking of rural people as Members of Congress. I congratulate him also for the work he has done with the Rural Caucus, having succeeded my friend and late colleague, Mr. Breckenridge, who was chairman of the Rural Caucus group.

Again, Wes, thank you for your appearance.

Mr. WATKINS. Thank you, Mr. Hubbard. I was in your district recently. It is very similar to mine. I was speaking to a group called

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Rural Education Specialists, a group of people only getting about 5 percent of the special education money for rural America. That is about all that goes in there. I would only point out that in rural America I feel like I am fighting for the underdog of the underdogs. I think they are forgotten people. They are people left behind. Survey after survey shows people want to go back to their roots, where they grew up, and live there and raise their families there, if they could only find a comfortable job within commuting distance of where they grew up as a boy or a girl. So, hopefully, you will let me fight for this underdog.

Chairman GONZALEZ. Thank you very much, Mr. Congressman.

There is one more thing. We need your help very desperately. This bill is a survival bill in both senses, substantive and the political sense. I notice that you have pledged your personal support, but you have a formidable organization. That Congressional Rural Caucus is a formidable thing. Do you feel that we could get a good formal backing of the Rural Caucus?

Mr. WATKINS. I think we can. I have not polled. I have personally talked to a significant number of the approximately 150 members. I think we could probably try to get the support of possibly a majority of those Rural Caucus members with inadequate financing in rural America.

Chairman GONZALEZ. May I make such a plea to you? Because I think it will make a difference between our own political survival of this bill or its death.

Mr. WATKINS. You have my pledge. My staff and I will pull together our thoughts and report on the rural housing provisions in this bill and ask them for their support.

Chairman GONZALEZ. Thank you for your support. Thank you for your time.

Mr. WATKINS. Thank you.

Chairman GONZALEZ. We are next privileged to have the Honorable Charles W. Shuman, who is the Administrator of the Farmers Home Administration of the U.S. Department of Agriculture.

STATEMENT OF HON. CHARLES W. SHUMAN, ADMINISTRATOR, FARMERS HOME ADMINISTRATION, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY NEAL "SOX" JOHNSON, DEPUTY ADMINISTRATOR FOR PROGRAM OPERATIONS, L. D. ELWELL, ASSISTANT ADMINISTRATOR FOR HOUSING, AND JIM ANDERSON, DIRECTOR FOR THE BUDGET

Mr. SHUMAN. Thank you, Mr. Chairman.

Chairman GONZALEZ. You are a veteran, Mr. Shuman, so you know that if you wish, you can enter your prepared text. We want to thank you for having given us an opportunity to read your statement. You may do that for the record at this point, and proceed by summarizing. Also, for the record, it would be helpful to introduce the members of your staff or counsel who are with you for the record.

Mr. SHUMAN. Thank you very much, Mr. Chairman. I appreciate having the opportunity to visit with you this afternoon. Before I get into my testimony, I would like to introduce the people that are here with me at the table. First, on the far left is my Deputy Ad-

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ministrator for Program Operations, Mr. Neal "Sox" Johnson, who Congressman Watkins just recently referred to as "Sox." Then, a face I am sure is familiar to many of the people on the committee, Mr. Chairman, our Assistant Administrator for Housing, Mr. L. D. Elwell, who is on my immediate left, and then, to my right is my Director for the Budget at Farmers Home Administration, Mr. Jim Anderson.

Chairman GONZALEZ. I was going to say that if Mr. Lundine had been from the border area down in Texas, I would say the reason he referred to Mr. Sox is because that is the custom, you use the middle name. That is really the last name, and then the very last name is usually the mother's name, and that is not the record, but knowing that Mr. Lundine is from New York, I cannot account for it that way. [Laughter.]

Mr. SHUMAN. Mr. Chairman, members of the committee, I am not sure how we can account for Neal "Sox" Johnson, either. [Laughter.]

But we try to. As I said, I appreciate this opportunity to discuss the housing policies of the Farmers Home Administration.

The overriding policy of the Agency continues to be providing decent housing for rural people who otherwise cannot afford it. The corollary policy is to carry out this responsibility within the guidelines of the President's economic recovery program.

We are directing our resources to those people who are most in need and who live in truly rural areas. In fiscal 1981, approximately 31 percent of our rural housing loans were made to house people whose income was below 50 percent of the median income. Census data indicates that the majority of substandard housing is in the more remote rural areas and in towns of 2,500 population or less.

As you alluded to earlier, Mr. Chairman, last week Secretary Block and HUD Secretary Pierce formally agreed to the fact that there is a serious lack of mortgage credit in communities with populations between 10,000 and 20,000. As a result of that agreement, housing assistance from the Farmers Home Administration will continue to be available in those communities that are designated if they are rural in nature and outside of a standard metropolitan statistical area. I am sure that both Secretaries appreciate the interest and involvement and the passing on to them of the concerns that you had for their agreement in that effort.

As you know, Mr. Chairman, Congress directed the Farmers Home Administration to eliminate the one national income eligibility standard and develop varying eligibility criteria tied more closely to local economic conditions. So, last December, we issued regulations which established separate eligibility standards for single-family housing loans based on the median income of more than 500 areas. Eligibility for moderate-income borrowers ranged from an income ceiling of $17,000 to not more than $23,000. Low-income ceilings generally ranged on these constructions from $11,500 to $18,000.

In the March 11 Federal Register, we proposed some refinements to the earlier regulations. Basically, the revised regulations will reduce the maximum income limit for moderate-income borrowers to between $15,600 and $23,000, depending on the economic region. Low-income ceilings will not change. The proposed regulations will

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also require an annual, instead of a biennial, review of interest credit agreements that we have with home loan borrowers. This latter change will help us assure that this assistance continues to reach those who need it most.

This same goal, that of serving those who most need it, is the underlying purpose of our decision to direct our rental assistance funds to rural rental projects. A survey in March of 1981 showed that many existing projects needed to increase the number of units available for rental assistance. We believe it is in the best interest of our borrowers, tenants, and taxpayers to give priority to using rental assistance in our present projects and to expand our services to new units as additional resources allow.

The single-family housing program has not moved as well as we would like during the first half of this fiscal year due to a number of extenuating circumstances. As you know, we operated under a continuing resolution until December 1981. Many home loan applicants have had difficulty showing repayment ability due partially to high interest rates and general economic conditions. In addition, many county supervisors, especially in areas hit by natural disasters, have had to give priority to those farm borrowers who are experiencing serious economic problems.

Mr. Chairman, I assure you that we will do everything we can to use all our available resources for these programs in this fiscal year.

Although the vast majority of housing borrowers are making payments on schedule, the Farmers Home Administration delinquency rate is high. We have just about one million, actually, 997,000, single-family housing loans outstanding as of January 1, 1982. Of those, 281,000, about 30 percent are delinquent. The delinquency figure includes an estimated 50,000 borrowers with whom we have been able to work out a new payment schedule, but who still are technically counted by our computer system as being delinquent. There are about 30,000 multifamily rural rental housing loans outstanding, including farm labor housing. Of these, 657, or just under 3 percent, are delinquent.

We are making an effort to reduce our delinquency rates, but by that we mean we are doing what we can, through servicing, to assist borrowers to become current on loan payments. This effort has been at some points misinterpreted by those who think that we are "cutting off" our borrowers rather than working with them to make their payments. This is not the case.

On November 25, 1981, we issued a detailed procedure to our county staffs for supervision and servicing of single-family housing borrowers. They were instructed to monitor delinquent and problem accounts on a daily basis and provide individual credit counseling in an effort to assist borrowers.

Some of the servicing alternatives that the Agency is using are: determining if the borrower is eligible for interest credit assistance. If we find that he is eligible for that assistance, a reduced interest payment can be granted for up to 2 years. The subsidy granted on those loans approved after October 1, 1979, is subject to recapture.

The second alternative that we have available to use is to determine if the borrower is willing and can afford to make partial payments in addition to the regular payment; and then we do have the

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authority, and are using this authority, to grant a moratorium on loan payments when the borrower is delinquent due to unemployment, illness, or other circumstances beyond their control.

Of course, strict collection policies are followed for any borrower who has sufficient income but does fail to make payments. But under normal circumstances, rural housing loans are liquidated only after every other servicing approach has been tried and failed. Even then, foreclosure is recommended only after all reasonable attempts have been made to liquidate the loan through sale, transfer, or voluntary conveyance.

In conclusion, Mr. Chairman, we believe that we have adequate funding, staffing, and the necessary expertise to carry out our housing mandate within the President's economic recovery program.

Then, not a part of my prepared and distributed testimony, I would like to review briefly the differences between what the administration is proposing and what we find in H.R. 5731. Probably the main difference is in the total aggregate level of housing authorization for 1983. The administration is proposing $1,126,000,000, which is the total housing budget for fiscal year 1983, compared to H.R. 5731, with a number of $3,725,000,000. Of this level, the main reduction is in our 502 program and in our 515 program.

We feel that our $900 million level—for section 502 only—we are requesting will be directed to the more truly rural communities, the smaller places in rural America and the open countryside, although not able to meet all of the needs, and I do not think the Farmers Home Administration was ever or could ever meet all of the rural housing needs, will go a long way towards providing that assistance in those truly rural communities.

The program has been reduced. The rental assistance portion of our 515 program has been reduced so that we will be able to provide assistance to those rental assistance contracts that are expiring. We will be able to provide assistance to those projects that have a need to add additional units of rental assistance to those projects to make those projects self-sustaining.

Mr. Chairman, we feel that the major problem in rural America, as in all of this country, has to do primarily with high interest rates. The President's economic recovery program, which is oriented primarily towards reducing spiraling inflation and bringing it under control and reducing interest rates, will have a very, very positive effect on the ability of rural America to provide housing, and we look forward to seeing that program to a successful conclusion. I would be very willing to answer any questions, and would appreciate having any suggestions and responding to any inquiries you or the committee might have, Mr. Chairman.

[Mr. Shuman's prepared statement, on behalf of the Farmers Home Administration, and a letter from Agriculture Secretary John R. Block to House Speaker Thomas P. O'Neill, Jr., dated March 12, 1982, with enclosed draft bill "To Amend Title V of the Housing Act of 1949," follow:]

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TESTIMONY OF
CHARLES W. SHUMAN
ADMINISTRATOR
FARMERS HOME ADMINISTRATION
U.S. DEPARTMENT OF AGRICULTURE
BEFORE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
MARCH 25, 1982

Mr. Chairman, members of the Committee: I appreciate this opportunity to discuss the housing policies of the Farmers Home Administration.

The overriding policy continues to be providing decent housing for rural people who otherwise cannot afford it. The corollary policy is to carry out this responsibility within the guidelines of the President's economic recovery program.

We are directing our resources to those people who are most in need and who live in truly rural areas. In fiscal year 1981, approximately 31 percent of our rural housing loans were made to house people whose income was below 50 percent of the median income. Census data indicates that the majority of substandard housing is in the more remote rural areas and in towns of 2,500 or less.

Last week, Secretary Block and HUD Secretary Pierce formally agreed that there is serious lack of mortgage credit in communities with populations of . between 10,000 and 20,000 populations. As a result, FmHA housing assistance will continue to be available in those designated communities if they are rural in nature and outside of a Standard Metropolitan Statistical Area (SMSA).

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As you know, Mr. Chairman, Congress directed Farmers Home to eliminate the one national income eligibility standard and develop varying eligibility criteria tied more closely to local economic conditions. Last December, we issued regulations which established separate eligibility standards for single-family housing loans based on the median income of more than 500 areas. Eligibility for moderate-income borrowers ranged from an income ceiling of $17,000 to not more than $23,000. Low-income ceilings generally ranged from $11,500 to $18,000.

In the March 11 Federal Register, we proposed some refinements to the earlier regulations. Basically, the revised regulations will reduce the maximum income limit for moderate-income borrowers to between $15,600 and $23,000, depending on the economic region. Low-income ceilings will not change. The proposed regulations will also require an annual, instead of biennial, review of interest credit agreements with home loan borrowers. This latter change will help us assure that this assistance continues to reach those who need it most.

This same goal -- serving those who need it most -- is the underlying purpose of our decision to direct rental assistance funds to existing rural rental projects. A survey in March 1981, showed that many existing projects needed to increase the number of units available for rental assistance. We believe it is in the best interest of our borrowers, tenants and taxpayers to give priority to using rental assistance in our present projects and to expand our services to new units as additional resources allow.

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The single-family housing program has not moved as well as we would like during the first half of this fiscal year due to a number of extenuating circumstances. As you know, we operated under a continuing resolution until January 1982. Many home loan applicants have had difficulty showing repayment ability due partially to high interest rates and general economic conditions. In addition, many county supervisors, especially in areas hit by natural disasters, have had to give priority to those farm borrowers who are experiencing serious economic problems. We assure you that we will do everything we can to use all available resources this year.

Although the vast majority of housing borrowers are making payments on schedule, the delinquency rate is still too high. We have just about 1 million (997,133) single-family housing loans outstanding as of January 1, 1982. Of those, nearly 300 thousand (281,104) or about 30 percent are delinquent. The delinquency figure includes an estimated 50,000 borrowers with whom we have been able to work out a new payment schedule but who are technically counted as delinquent.

There are about 30,000 (29,217) multi-family rural rental housing loans outstanding, including farm labor housing. Of these, 657 or just under three percent are delinquent.

We are making an effort to reduce our delinquency rates. By that we mean we are doing what we can, through servicing, to assist borrowers to become current on loan payments. This effort has been misinterpreted by some to mean that we are "cutting off" our borrowers rather than working with them to make their payments.

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On November 25, 1981, we issued detailed procedures to our county staffs for supervision and servicing of single-family housing borrowers. They were instructed to monitor delinquent and problem accounts on a daily basis and provide individual credit counseling in an effort to assist borrowers.

Some of the servicing alternatives we are using are:

--Determining if the borrower is eligible for interest credit assistance. If so, a reduced interest payment can be granted for up to two years. The subsidy granted on those loans approved after October 1, 1979, is subject to recapture;

--Determining if the borrower is willing and can afford to make partial payments in addition to the regular payment; and

--Granting a moratorium on loan payments when the borrower is delinquent due to unemployment, illness or other circumstances beyond their control.

Of course, strict collection policies are followed for any borrowers who have sufficient income but fail to make payments. But under normal circumstances, rural housing loans are liquidated only after every other servicing approach has been tried and failed. Even then, foreclosure is recommended only after all reasonable attempts have been made to liquidate the loan through sale, transfer or voluntary conveyance.

In conclusion, Mr. Chairman, we believe that we have adequate funding, staffing and the necessary expertise to carry out our housing mandate with the President's economic recovery program.

I'll be pleased to answer any questions you or members of the committee may have.

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DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

March 12 1982

Honorable Thomas P. O'Neill, Jr.
Speaker of the House
House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

Enclosed for the consideration of the Congress is a draft bill "To amend Title V of the Housing Act of 1949."

The Department of Agriculture recommends enactment of this draft bill.

The draft bill would amend existing Sections 513, 515(b)(5), 517(a)(1), and 521(a)(2)(D) of Title V of the Housing Act of 1949 to extend the expiration dates of certain rural housing programs and authorizations for appropriations in these sections.

Consistent with the President's fiscal year 1983 budget, this bill would extend the authorizations for these housing programs through September 30, 1984.

The following rural housing programs are affected:

1. General authorizations (Section 513(a))— the authorization level for insured loans under this title is revised and extended to September 30, 1984. This requested authorization will be devoted to subsidized loans to low-income borrowers, except for certain loans that are necessary to servicing of the Farmers Home Administration's loan portfolio.

2. Low-income repair loans and grants (current Section 513(b)(2))— the authorization for appropriations for loans and grants under Section 504 for very low-income owner-occupants to make repairs to remove health and safety hazards to their homes is revised and extended to September 30, 1984.

3. Farm labor housing grants (current Section 513(b)(3))— the authorization for appropriations for financial assistance under Section 516 to broadly based nonprofit organizations and public agencies to provide housing and related facilities for domestic farm laborers is revised and extended to September 30, 1984.

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4. Technical and supervisory assistance (current Section 513(b)(4))-- the authorization for appropriation for financial assistance under Section 525(a) for technical and supervisory assistance and planning is deleted.

5. Rural rental housing loans (Section 515(b)(5))-- the authority to provide financial assistance to provide rental or cooperatively owned multi-family living units for occupancy by low- to moderate-income families is extended to September 30, 1984.

6. Rural housing loans (Section 517(a)(1))-- the authority to provide financial assistance under this section to low- and moderate-income families to buy, build, improve or relocate homes of their own in rural areas (Section 502 single family housing loans) is extended to September 30, 1984.

7. Rental assistance (Section 521(a)(2)(D))-- the authority to enter into rental assistance contracts is extended to September 30, 1984.

8. Mutual and self-help housing loans and grants (Section 523(f))-- the authority to make loans and grants under Section 523(b)(1)(A) and (B) is not extended.

9. Self-help Housing Land Development Fund (Section 523(g))-- no authorization for appropriations or authority for a specific authorized program level is requested.

In addition, the following amendments to Title V of the Housing Act of 1949 are requested:

1. Amend Section 521(a)(2)(A) to change low-income tenant's contribution towards rent and utilities in rental, congregate, and cooperative housing projects receiving rental assistance.

The proposed action amends Section 521(a)(2)(A) of the Housing Act, as amended, which establishes the amount of the tenant s contribution towards rent and utilities in projects allocated rental assistance. Presently, it is not to exceed 25 percent of the tenant's monthly income. The proposed amendment would increase the maximum tenant's monthly contribution to 30 percent of monthly income This change would make the program consistent with the Department of Housing and Urban Development's Section 8 program. This amendment will have a positive impact on program management in that program outlays will be decreased at a slight cost to tenants living in rural rental housing projects. Since inception of the rental assistance program in fiscal year 1978 tenant's maximum contribution has remained at the same percentage of income while project costs, and consequently Government costs, have increased by about 55 percent per unit funded. The proposed amendment will reduce Government costs by $4.6 million in fiscal year 1983 and $23.1 million

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over the next 5 years for the 17,560 units that are included in the President's budget to receive 5-year rental contracts in fiscal year 1983. These savings are reflected in the President's budget request of $185 million. If all contracts that are due to expire over the next 5 years are renewed for 5 years, the savings in Government cost will amount to $54.7 million over the next 5 years and $75.3 million over the lifetime of all such contracts.

2. Delete Section 530 which prevents the Secretary from approving rent increases for multi-family projects if rental assistance is not requested and tenants pay over 25 percent of their income for rent and utilities. Experience shows that this section is an impediment to providing multi-family housing to families of low and moderate income. It has placed an unnecessary burden on multi-family borrowers to apply for rental assistance when there are not enough rental assistance resources to respond to the requirement.

An identical letter has been sent to the President of the Senate.

The Office of Management and Budget advises that enactment of this proposed legislation would be in accord with the Administration's program.

Sincerely,

John R. Block

John R. Block
Secretary

Enclosure

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A BILL

To amend Title V of the Housing Act of 1949

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 513 of the Housing Act of 1949 is amended by striking out the present language and inserting in lieu thereof the following:

"(a) The Secretary may, to the extent and in such amounts as provided in advance in appropriation Acts, make and insure loans under the authorities provided in this title in an aggregate principal amount not to exceed $1,126,000,000 for fiscal year 1983 and such amounts as may be necessary for fiscal year 1984; except that for fiscal year 1983 of any amount so approved—

"(1) not more than $1,100,000,000 shall be made available for loans insured on behalf of borrowers receiving assistance pursuant to subparagraph (B) of section 521(a)(1);

"(2) not more than $19,000,000 may be made available for loans insured under section 514; and

"(3) not more than $5,000,000 shall be available for making advances under section 501(e).

"(b) There are authorized to be appropriated—

"(1) for loans and grants pursuant to section 504, not to exceed $36,500,000 for fiscal year 1983, of which not more than $12,500,000 shall be available for grants, and such sums as may be necessary for fiscal year 1984;

"(2) for financial assistance pursuant to section 516, not to exceed $12,500,000 for fiscal year 1983, and such sums as may be necessary for fiscal year 1984;

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"(3) for the purposes of section 509(c), not to exceed $2,000,000 for fiscal year 1983, and such sums as may be necessary for fiscal year 1984;

"(4) such sums as may be necessary for each of the fiscal years 1983 and 1984 to meet payments on notes or other obligations issued by the Secretary under section 511 equal to (A) the aggregate of the contributions made by the Secretary in the form of credits on principal due on loans made pursuant to section 503, and (B) the interest due on a similar sum represented by notes or other obligations issued by the Secretary; and

"(5) such sums as may be required by the Secretary for each of the fiscal years 1983 and 1984 to administer the provisions of sections 235 and 236 of the National Housing Act and section 8 of the United States Housing Act of 1937."

Sec. 2. Section 515(b)(5) of such Act is amended by striking out "1982" and inserting in lieu thereof "1984".

Sec. 3. Section 517(a)(1) of such Act is amended by striking our "1982" and inserting in lieu thereof "1984".

Sec. 4. Section 521(a) of such Act is amended by--

(a) striking out in paragraph (2)(A) the number "25" and inserting in lieu thereof "30"; and

(b) striking out in paragraph (2)(D) the present language and inserting in lieu thereof the following:

"(D) There are authorized to be appropriated $185,000,000 for fiscal year 1983 and such sums as may be necessary for fiscal year 1984 with which the Secretary is authorized to enter into rental assistance contracts aggregating no more than said amounts in each fiscal year in carrying out subparagraph (A)."

Sec. 5. Section 530 of such Act is repealed.

Sec. 6. These amendments to the Housing Act of 1949 shall take effect on October 1, 1982.

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Chairman GONZALEZ. Thank you very much, Mr. Shuman.

First, I am glad that you appended this last discussion here to your statement, because I was quite concerned, after having seen the prepared text. The purpose for these hearings is to consider these two bills, and there is no reference in your statement to these two bills. I do not intend to make a big to-do about it, except to say I am glad that you referred to the funding difference.

I think that it is important that the record should show, and you described it as such, that you are speaking about aggregate loan levels that do not represent budget authority, so that in effect this is not all savings. You are not showing any savings in here, because traditionally your budgeting methods in this respect have been different.

So, I do think the record ought to show that clearly. You are speaking of differences in numbers that are not necessarily representative of budget authority, and therefore do not reflect actual savings.

The other thing was that your main presentation concentrated on the delinquency problem. I noticed the headlines down home, I guess I would say about a month ago, where a colleague of mine, Mr. Hance, was very exorcised, charging that the rate of foreclosures—I noticed that because the word in the published reports was "foreclosures"—had reached alarming levels, and then shortly after that there was a denial, and an explanation that delinquencies were differentiated from foreclosures.

Can you explain what happened there? Did you have any rebuttal? Was there any explanation? What was the truth of the charge that your actual foreclosure rate had reached alarming and unacceptable proportions?

Mr. SHUMAN. About a month ago, there did circulate a very inaccurate summary of a supervisory and servicing memorandum that I distributed to my State directors in the middle of the summer or early fall, in which I instructed my State directors to concentrate on supervising and servicing our existing portfolio, so we could identify problems of farmers and homeowners, water and sewer system operators, and recipients of our business and industry guarantee loan program, so that we could concentrate on those problems and find out what was causing problems facing those individuals, and to come up with a solution through the expertise that we have to supervise and service those loans.

That memorandum had attached to it goals that I established for each State office to move accounts from a delinquent status to a current status. This was an effort to give a goal to those State directors so that they would have a way of measuring their progress in solving the problems faced by farmers and rural homeowners and other recipients of Farmers Home Administration assistance.

That memorandum, even though it specifically did not deal with percentage reductions, was misconstrued, I hope unintentionally, by others outside of government as being a demand upon the Farmers Home Administration in the field to liquidate those delinquent accounts.

Mr. Chairman, that is absolutely not the case, and not the intended use of that memorandum, and in fact, that was not the way it was perceived by those who received it in the field. It was per-

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ceived by those who received it in the field as offered, to emphasize supervision and service and to find out the problems that were causing delinqencies.

I am not sure of the specific news release or newspaper account that you saw, Mr. Chairman, but it may have had something to do with that very disserving, inaccurate summary of the Farmers Home Administration's efforts to emphasize our supervision and servicing activity.

Chairman GONZALEZ. I have time for just one question here. That is, in view of the emphasis that it placed on counseling and what you describe in detail here, and in view of the observations we made in these field hearings, where usually your supervisor would be one person who has an array of duties, I cannot understand in the light of that importance of focusing resources on curing delinquencies that you stress so much in your presentation why you would oppose the counseling authority that we have provided in the legislation.

Mr. SHUMAN. You say the counseling authority that you have provided in the legislation?

Chairman GONZALEZ. Yes, sir. In your technical assistance, 525 program.

Mr. SHUMAN. The emphasis that the Agency is placing on supervising and servicing is oriented toward taking care of the problems that our individual borrowers are facing. We feel that the section 525, our technical and supervisory assistance grants, are specifically oriented toward a unique situation that we feel we can take care of outside of and with our existing personnel. We feel we do not need to utilize those funds for that purpose at the present time.

Chairman GONZALEZ. Mr. Shuman, FmHA is specifically authorized to provide loans to families who want to purchase manufactured housing. When can we expect regulations to be in place so that this program may proceed?

[At the request of Chairman Gonzalez, the following additional information was submitted for inclusion in the record by Mr. Shuman:]

RESPONSE RECEIVED FROM MR. SHUMAN

FmHA is presently providing loans to families who want to purchase manufactured housing, provided the unit is constructed in accordance with the Housing and Urban Development (HUD) Minimum Property Standards (MPS) plus FmHA's requirements for extra insulation and other thermal requirements.

Chairman GONZALEZ. Mr. Wylie.

Mr. WYLIE. Thank you, Mr. Chairman.

Mr. Shuman, several proposals, including the recognition of the President's Commission on Housing, recognized that we had to do something either through a plan of block grants for Federal housing assistance or to mold Farmers Home into HUD.

What views do you have on such recommendation?

Mr. SHUMAN. I have no information on that proposal, Mr. Wylie. I am sorry.

Mr. WYLIE. You will be receiving information on that proposal shortly. I have seen the President's initiative on housing. We do not have any information on it, but I am sure you would not want

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to necessarily associate yourself with that recommendation, would you, until you have seen it?

Mr. SHUMAN. I would want to know the details of the proposal and examine exactly the manner in which any kind of change might be suggested before I would be able to comment. But I do not know the details. I am not aware of that proposal.

Mr. WYLIE. Well, let me say that I have forewarned you. You might want to get a copy of the preliminary report.

Mr. SHUMAN. Let me make one comment for the record very clear; I feel strongly that the delivery system and the activities in the Farmers Home Administration in administering the programs that have been given to us by the Congress have been second to none. I am really proud to be associated with the Farmers Home Administration and associated with the county people who have been handling this heavy workload.

Mr. WYLIE. I noticed on page 3 of your testimony you mention there are nearly 300,000, 281,104, about 30 percent of your single family housing loans outstanding are delinquent. That is a figure that has to cause you concern.

Mr. SHUMAN. Certainly it causes me concern. However, the important point is not whether or not the account is delinquent but what is the problem causing that delinquency and what kinds of steps have we taken with that family to work out the delinquency.

Mr. WYLIE. That figure of 30 percent is five times higher than the national average on any loan on single family housing, I might add.

Mr. SHUMAN. I might point out that you need to keep in mind when you examine those numbers and compare the Farmers Home Administration program with national numbers of all single family delinquencies that the Farmers Home Administration's activities are confined primarily to low-income families, and therefore, you would probably expect, I think, to see our delinquency figures higher than the national average.

Another point that must also be kept in mind is our test for delinquency is very severe. We count a housing borrower delinquent if he owes us more than $10 for longer than 15 days, and many other suppliers of credit of this type have a less severe definition of delinquency than that.

Mr. WYLIE. Well, it is something that needs a considerable amount of nuturing and care, I would say. I know that the administration has made much of the fact that there are delinquencies in some of these Federal Government programs like the 235 program, which is the low-income housing program through HUD. I might add that the delinquency rate is not nearly that high in that program as we think it might be.

I understand this is not like a student loan program. This concerns a man's house, his home. What is the problem basically that you think the delinquency rate is this high?

Mr. SHUMAN. It is hard to say that one thing is the problem. Delinquencies have been caused by many factors. In my statement I alluded to several of those.

Mr. WYLIE. Is it a lack of effort to try to collect the loans in the past?

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Mr. SHUMAN. That may have been the case at some points in the past. We do feel, though, that we have instituted a system in the Agency that is paying attention to any kind of a sign of a problem with a loan so that we can get right on top of that situation, whether it is a deterioration in the security property of the home itself or whether it is a delinquency that has occurred, so that we can come right in there and try to identify the problem and service it to a successful conclusion.

Mr. WYLIE. I think you have instituted a plan—I have talked with Mr. Elwell about this—to try to stimulate collection in some of the States. As I understand it, in some cases where the delinquencies have been great there has not been all that much effort to collect in the past, that funds have indeed been withheld until some of the States would get their house in order?

Mr. SHUMAN. It was not necessarily withholding funds, but it was reducing the allocation of funds to those States. That has been done in some instances, and we will continue to utilize that type of an activity.

Mr. WYLIE. That is referred to as withholding the full allocation.

Mr. SHUMAN. That is correct.

Mr. WYLIE. Let me say I would want to be one to encourage you in that regard, and suggest as one member of this committee that I would want to try to be helpful. I think it is too bad that with that many borrowers that are delinquent, unless there is some specific cause which you have not indicated to me right now, that maybe it is the fact that there has been laxness in trying to collect it.

Mr. SHUMAN. I can assure you that we do consider it a problem. I have taken several steps, including a followup in each county office in utilizing the technique that you described to bring to the attention of our field people the seriousness of the problem.

I think the seriousness of the problem is really apparent because of the fact that the Farmers Home Administration loan when it gets delinquent it is hard for a low-income person to make that up. We need to get on those delinquencies early to find out what the problem is and make sure that proper attention is paid to that responsibility by the recipient of the loan. That is the direction we are taking.

Chairman GONZALEZ. Would the gentleman yield at that point?

Mr. WYLIE. Certainly.

Chairman GONZALEZ. I think there is a very important aspect here we ought to dwell on. Is it not true, Mr. Shuman, that when you examine the statistics over a 6-month period that delinquency drops dramatically? In other words, something has happened there in the interim during which delinquencies are taken care of.

Over a 6-month span the figure drops from 29 percent to 13 percent. So that means that a high level of delinquencies is not that unhealthy.

Mr. SHUMAN. Our delinquencies have never been as low as 13 percent. You may be talking about our aging of accounts. The number I gave you on the percentage delinquency——

Chairman GONZALEZ. For the section 502, general purpose loan.

Mr. SHUMAN. But the figure I am talking about, which is approximately 30 percent, counts every account, whether it has been delinquent 1 month or 6 months. You may be looking at figures

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there that show how many are delinquent total, how many have been delinquent 3 months, how many have been delinquent 6 months. And what that should show is that we should have fewer accounts delinquent 6 months than we have delinquent 1 month.

Chairman GONZALEZ. Yes.

Mr. SHUMAN. Which is a good sign, and you should have that continuing.

Chairman GONZALEZ. That is what I am saying. I do not want, intended or not, to contribute to creating a smokescreen of alarming proportions by highlighting delinquencies just to give credence to those who really do not know the program and simply want to do away with it.

Mr. SHUMAN. The fact remains our total delinquencies in all categories are higher than they have been in the past.

Mr. WYLIE. I did not intend to raise any smokescreen, Mr. Chairman.

Chairman GONZALEZ. No, no. I did not imply that you had or that even Mr. Shuman had. I am saying that we have had those who I must say have been against the concept of the program to begin with, who have had sort of a prophecy. And I felt if we did not interpret just what delinquencies mean and have the total view that we would be sort of playing into the hands of their self-fulfilling wish.

Mr. WYLIE. I thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you.

Mr. Mitchell.

Mr. MITCHELL. Mr. Administrator, it has been alleged that there is an enormous backlog of applications, somewhere in excess of 300,000. I am not concerned with the precise figure.

Mr. SHUMAN. I think I can provide it for you.

Mr. MITCHELL. All right, if you want to, but that is not my major concern, the precise figure. My concern is that apparently in your testimony you are attempting to explain this enormous backlog by, No. 1, pointing out that you are operating under a continuing resolution.

Is that one of your explanations for the backlog that is alluded to in your testimony?

Mr. SHUMAN. I am not sure that I alluded to the backlog in my testimony, Congressman.

Mr. MITCHELL. You were talking about a single-family housing problem, and then you go on to say you operated under a continuing resolution.

Mr. SHUMAN. That is one of the reasons for the slowness in the utilization of our funds in the early part of this fiscal year.

Mr. MITCHELL. Then you are saying that this is a contributing factor to the backlog, right?

Mr. SHUMAN. No, not necessarily.

Mr. MITCHELL. So in your testimony you refer to the fact that farm borrowers were hit hard by natural disasters, and there has been a great deal of emphasis on that aspect. Is that one of the reasons for the backlog?

Mr. SHUMAN. That could contribute to some of the backlog, but mainly it is another reason for the utilization—for not as rapid utilization of our funds early in this fiscal year.

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[At the request of Congressman Mitchell, the following additional information was submitted for inclusion in the record by Mr. Shuman:]

RESPONSE RECEIVED FROM MR. SHUMAN

There were 201,061 loan applications on hand in our county offices as of December 1981 for all types of assistance.

Mr. MITCHELL. Let me ask another question along the same line. You are properly placing an emphasis on collecting delinquent loans, but is it possible that the emphasis is so great there, that you shift personnel and priorities there, that you are not taking care of new applications?

In your testimony you refer to the fact that you monitor delinquent and problem accounts on a daily basis. I must just say for the record I conjured up an image of somebody going out every day with a baseball bat and knocking on somebody's door and saying, "Jim, give me the money."

I am sure you do not do that, but my point is has this emphasis on collecting and protecting against delinquent loans in any way diminished your capability to follow through on applications?

Mr. SHUMAN. No; as a matter of fact, our backlog of applications has diminished. We have a total of 126,000 housing applications on hand. One year ago there were 147,000. It is now down to 126,260. Now, that is not much of an improvement, but it is a little.

Mr. MITCHELL. No, it is not, and it is particularly disturbing to me in light of what we heard from Congressman Watkins, when there is such a crying need for housing in rural America.

Mr. SHUMAN. It is better than 300,000.

Mr. MITCHELL. Two is better than zero, but it does not mean very much.

Mr. SHUMAN. That is right.

If I might, I would be glad to describe and elaborate a little more on what I meant by our daily attention to delinquencies.

Mr. MITCHELL. Would you come back to that? We operate under the 5-minute rule. I would like time for one more question.

Chairman GONZALEZ. If the gentleman will yield, we will give you credit for that; but I think it is important also to bring in a point here. This is a result of the field hearings we had.

Is it not a fact though, Mr. Shuman, that so many of these applicants have fallen out of seeking FmHA assistance because they were told there was no use, there was no money?

Mr. WATKINS. True.

Chairman GONZALEZ. Is that not right?

Mr. SHUMAN. You mean our backlog of applications?

Chairman GONZALEZ. Yes.

Mr. SHUMAN. Our backlog of applications is made up of people who come in to a county office and apply. We have a certain amount of time in which we have to determine whether or not that applicant is eligible. If he is determined eligible by the Agency, then that application is put on file. The county office then processes these applications in date order. There could be instances where a particular family might find some place else to live, or no longer want to buy or build a house through Farmers Home Administra-

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tion when we get to his application in the file. So we do have some drop-off like that.

Mr. MITCHELL. That must be small in terms of Congressman Watkins' testimony.

Mr. SHUMAN. No.

Mr. WATKINS. There are some applicants who are waiting at least a year, 6 months to a year. They finally just give up hope.

Mr. SHUMAN. Let me respond to that. We would not know whether or not that person had given up hope until we got to his application.

Mr. WATKINS. From the chairman's information, many times the Farmers Home office does not use any initiative to check. If that person does not get back—sometimes they get back two or three times—I think we all know that—and they have not been processed, and finally they give up.

Chairman GONZALEZ. We have more disturbing testimony than that. We have testimony where people were saying they were told there was no use in applying, there was no money, what was the use.

Mr. Mitchell, sorry for the interruption.

Mr. MITCHELL. That is all right. It was a very profitable interruption for me.

I do have one other question. I am sure that this administration does not make any budget cuts in programs, or anything like that, until it makes a thorough, meticulous assessment of the impact of that cut. I am convinced this administration would never institute any changes in eligibility and so forth unless there had really been done a thorough ongoing longitudinal statistical study to suggest a basis for the change.

Would you spell out for me what the statistical basis is for the new levels of $15,000 to $23,000 for eligibility levels for moderate-income borrowers? How long did that study take and what was the basis of the study?

You propose to change the rural income eligibility levels from $15,000 to $23,000. How did you determine that?

Mr. SHUMAN. The low-income level now varies all over the United States. I am sorry. I am not sure I understand the question.

Mr. MITCHELL. I am just trying to say that I assume that any part of this administration does not make any substantive change unless there is a thoroughgoing analysis of the impact of that substantive change. I wanted to know a little about the thoroughgoing analysis that you made to propose the new levels.

Mr. SHUMAN. We did a study of the impact of what the numbers would be, what the impact would be of people, of the numbers of people that would be eligible in the rural areas for these various income levels.

Mr. MITCHELL. When was that study undertaken?

Mr. SHUMAN. It would be prior to the publication and the distribution of those——

Mr. MITCHELL. Was it undertaken at the behest of the Office of Management and Budget?

Mr. SHUMAN. No; we did it in-house.

Mr. MITCHELL. I did not say it was farmed out. Was it done at the behest of, at t , OMB?

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Mr. SHUMAN. We would have consulted with them with any information, but I do not think they specifically asked us to do the study.

Mr. MITCHELL. My time is up, Mr. Chairman. For the record I would request a thorough, detailed statement on the study that provided the statistical basis for establishing these new levels, and I would request that that be submitted to all members of the committee.

Mr. SHUMAN. We will provide that to the subcommittee.

[At the request of Congressman Mitchell, the following study was submitted for inclusion in the record by Mr. Shuman:]

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1970

PRELIMINARY REGULATORY IMPACT ANALYSIS

1. Title

Moderate-income limits for Farmers Home Administration (FmHA) Rural Housing programs.

2. Statements of Need for and Consequences of this Proposal

a. Need for Action

Title V of the Housing Act of 1949, as amended, provides that our rural housing program serve low- and moderate-income families. The law defines what low income is but directs the Secretary to define moderate-income. Although funds are not directly appropriated for moderate-income loans the appropriation language does direct the agency to use a certain percent of funds for low income loans This direction indicates that funds not specified for low-income loans are available to serve moderate-income families The law also permits the agency to grant moderate-income borrowers a subsidy on their loan. This option has been implemented by providing subsid zed rental units for moderate-income families and in servicing moderate-income families with homeownership loans if they were low income at the time of loan approval. Moderate-income applicants for homeownership loans are not eligible for a subsidy on their initial loans.

The main purpose of the moderate-income program is to provide service to families that have sufficient resources to repay a loan without a direct subsidy but cannot obtain credit from other sources. Normally this group lacks a sufficient downpayment or do not have repayment ability because of shorter conventional terms. Generally, applicants with less than a 0 percent downpayment and a yearly ncome that is less than three times the yearly cost of principal, interest, taxes and insurance have had extreme difficulty in qualifying for conventional credit. Therefore, a typical family would need an income of about $19,000 to qualify for a loan to purchase a modest home of $40,000. This varies somewhat by region of the country because of the variance in taxes, insurance and housing cost. The extremes are probably a low of $13,500 in Alabama to a high of $22,500 in Massachusetts. The above is typical and does vary significantly between lenders or between regions of the country.

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The objective, therefore, is to define a moderate-income limit above low income but below those who can normally be expected to obtain credit from other sources.

b. Consequences of the Action

The appropriated level for the rural housing moderate-income program is about 430 million dollars. This level of funding can provide about 12,000 loans per year. Therefore, it is critical that the moderate-income limit be set so that it is limited to those least likely to be able to meet their housing need from other credit or their own resources. Generally, the lower a family's income the fewer options the family has to meet its housing need. A higher income limit would permit more households to compete for the limited amount of resources and thus reduce the opportunity of those in most need.

This action could affect low-income borrowers whose incomes have increased to the moderate-income level. When the revised moderate income is less than $15,600 (the previous moderate-income limit), those families with income between the moderate income limit and 15,600 will no longer be eligible for a subsidy because they will be classified as above-moderate income borrowers. This would have a significant impact on borrowers in about 15 percent of the country.

3. An Examination of Alternative Approaches

a. Establish the moderate income limit at a constant $5,500 above the low-income limit.

b. Establish the moderate income limit at a constant $3,000 above the low income limit.

Title V,Section 517(a)(1) of the Housing Act gives the Secretary full authority to define a moderate-income level for the Agency's rural housing program.

4. Analysis of benefits and costs.

The benefit is to the income groups that may qualify for a loan or rental unit through the rural housing program. Each option identifies a group of households with income over the low-income limit. The difference is in the size of the group each option identifies. Option (a) includes a larger group than Option (b) as illustrated by the following table.

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1972

ESTIMATED NUMBER OF RURAL HOUSEHOLDS
BELOW THE LOW-INCOME LIMIT BY CENSUS REGIONS AND
RURAL HOUSEHOLDS WITH INCOME OVER THE LOW-INCOME
BUT LESS THAN THE MODERATE-INCOME LIMIT

CENSUS REGIONS	LOW-INCOME LIMIT		MODERATE-INCOME LIMIT	
			Option b Low +3,000	Option a 5,500
	LIMIT	NUMBER	NUMBER	NUMBER
South	13,000	3,379,679	783,694	1,371,464
Northeast	16,500	1,255,688	342,418	570,719
North Central	16,500	2,027,398	552,926	921,544
West	16,500	966,578	263,612	439,354
U.S.	15,000	7,629,343	1,942,650	3,303,081

Household estimates: Source 1979 Annual Housing Survey of number of rural occupied units in places of 2,500 or less.

The percentage of rural population below the income limit was determined by use of the 1981 decile distribution of incomes.

Nationwide Option "a" would include 1,360,431 more households than Option "b" or about 70 percent more households. It is, therefore, estimated that 70 percent more households would be classified as moderate income under Option "a" than under Option "b". Currently the funding level for the 502 RH moderate-income program is 430 million dollars. This level of funding is adequate for about 12,000 loans. Therefore, either level should provide an adequate number of households to utilize available funds. Option "b" would restrict the use of those funds to an income group less likely to obtain other financing. An additional benefit may be a smaller backlog of applications in the county offices.

Currently, there are about 250,000 rural rental units available to serve low- and moderate-income households. The above table indicated that Option "a" provides for 15 percent more eligible tenants than Option "b". Since current levels of occupancy indicate no lack of eligible tenants, than an option that reduces the number of eligible tenants will best provide assistance to the "truly needy". The following chart illustrates the distribution of moderate-income limits according to the different options.

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NUMBER AND PERCENT OF MODERATE-INCOME AREAS WITHIN INCOME GROUPS

Income Group	Option a $5,500 over low-income		Option b $3,000 over low-income	
	Number	%	Number	%
$14,000 to $14,999	(low income)		61	12.3
$15,000 to $15,999	(low income)		35	7.1
$16,000 to $16,999	61	12.3	84	17.0
$17,000 to $17,999	35	7.1	67	13.6
$18,000 tp $18,999	84	17.0	91	18.4
$19,000 to $19,999	67	13.6	44	8.9
$20,000 to $21,000	91	18.4	112	22.7
$21,001 to $22,000	44	8.9	0	0
$22,001 to $23,000	112	22.7	0	0
$23,001 to $24,000	0	0	1	0
$24,001 to $25,000	0	0	0	0
Over $25,000	3	0	3	0

Option b would establish a moderate-income limit below the previous $15,600 in about 15 percent of the income areas in the country. This may cause some previosly low-income borrowers in these areas to loss their home and cause an inability for moderate-income program to function in these areas. Past performance (1980) indicates that applicants with incomes under $15,600 have difficulty in qualifying for housing loans or rental units with an interest rate of 13.25 percent and housing cost of $35,000. Under Option "b" most applicants for homeownership loans will need to be able to pay 30 percent or more of income for PITI in order to qualify. Option "a" would provide for applicants that could qualify and only commit 25 percent or less of income for PITI.

Generally the loan approval rate to applicants required to pay 30 percent of income for housing is about 50 percent less than at a 25 percent of income for PITI. (See Exhibit A for comparison of affordability to income in the various states and percent of income required for PITI).

The following chart illustrates the number of households occupying substandard housing in rural areas by income group of low, moderate and above-moderate income.

NUMBER OF RURAL RESIDENTS OCCUPYING SUBSTANDARD UNITS BY INCOME GROUP

Income Limit---------- Income Group	Option a Substandard Units Low	Moderate number	Above	Option b Substandard Units Low	Moderate number	Above
0 to $11,500	1,284,846	0	0	1,284,846	0	0
11,501 to 14,000	161,784	14,950	0	161,784	14,950	0
14,001 to 16,000	93,801	42,082	0	93,801	25,149	16,933
16,001 to 18,000	41,100	48,808	12,844	41,100	30,827	30,825
18,001 to 20,000	0	49,007	22,019	0	21,308	49,718
20,001 to 22,000	0	15,356	43,705	0	6,496	52,565
22,001 to 24,000	0	9,615	59,274	0	0	68,889
Total	1,581,531	179,818	137,842	1,581,531	98,730	218,930

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If loan applicants by income group are approved in similar percentages of distribution then Option b increases the chances of the most needy obtaining a loan from 3 percent to 12 percent. If the goal is to allocate limited resources to the most needy, then Option b best accomplishes this goal. There is no difference in cost for the single family homeownership program between the options because appropriation levels are not affected. Some difference in cost would exist in the rental program between the options but it would be insignificant.

5. Recommended Option

Option "b" is recommended by the agency because this option best allocates limited resources to applicants least likely to obtain housing from other sources. Although Option "b" provides very limited assistance in about 61 of the income areas, it otherwise best serves the agency goal. To compensate for this, it is recommended that no area have a moderate income below $15,600. Therefore, a preferred option is that the maximum moderate-income limit be established at $3,000 above the maximum low-income limit with no area moderate-income limit to be less than $15,600, or greater than $23,000 with the exception of Alaska.

6. Statutory Authority

Housing Act of 1949, Title V, Section 517 (a)(1).

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EXHIBIT A

A COMPARISON OF AFFORDABILITY IN VARIOUS STATES

	AT LOW-INCOME	$3000 OVER	$5000 OVER
ALABAMA			
PITI at 13.25% int.	$4051	$4051	$4051
Income available for PITI	$2952	$4541	$5792
% of "B" income for PITI	33.8%	27.0%	22.5%
ARIZONA			
PITI at 13.25% int.	$5669	$5669	$5669
Income available for PITI	$4626	$6045	$6892
% of "B" income for PITI	35.4%	29.8%	26.9%
ARKANSAS			
PITI at 13.25% int.	$4984	$4984	$4984
Income available for PITI	$3201	$4765	$6022
% of "B" income for PITI	41.5%	33.2%	27.7%
CALIFORNIA			
PITI at 13.25% int.	$6126	$6126	$6126
Income available for PITI	$5030	$6126	$7126
% of "B" income for PITI	34.0%	29.2%	26.6%
ILLINOIS			
PITI at 13.25% int.	$5977	$5977	$5977
Income available for PITI	$5423	$6559	$7163
% of "B" income for PITI	33.2%	28.5%	25.9%
CONNECTICUT			
PITI at 13.25% int.	$6634	$6634	$6634
Income available for PITI	$5020	$6830	$7830
% of "B" income for PITI	36.8%	31.6%	28.8%
MISSISSIPPI			
PITI at 13.25% int.	$4633	$4633	$4633
Income available for PITI	$2821	$4406	$5601
% of "B" income for PITI	38.6%	30.8%	25.8%
MAINE			
PITI at 13.25% int.	$6556	$6556	$6556
Income available for PITI	$4620	$5700	$6826
% of "B" income for PITI	40.9%	34.5%	31.2%
WISCONSIN			
PITI at 13.25 int.	$6591	$6591	$6591
Income available for PITI	$4791	$6120	$7010
% of "B" income for PITI	36.6%	31.4%	28.6%

PITI is the annual amount of principal, interest, taxes and insurance due with the loan amortized at 13.25% for 33 years.

Income available for PITI is the amount of income a typical family of 4 has left after paying all other living expenses including taxes.

% of "B" income for PITI is the adjusted family income divided into PITI cost.

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Chairman GONZALEZ. Mr. Hubbard.

Mr. HUBBARD. Thank you, Mr. Chairman.

Mr. Shuman, we welcome you to our subcommittee and appreciate your appearance and your testimony.

I would like to compliment and congratulate the State director for the Farmers Home Administration. Kendall Seaton is an excellent choice.

Mr. SHUMAN. I talked to Mr. Seaton a few minutes ago about a problem, and I agree with you, sir.

Mr. HUBBARD. I have not talked to him about my comment. I assure you he has been very helpful and cooperative ever since he has been in office for about 1 year, and I would be remiss if I did not compliment the excellent work he does.

I have these two questions—as you know, the President's Housing Commission has made some recommendations regarding the Farmers Home Administration. One suggestion is that the amount of funds used for interest credit in the rural housing insurance fund be used to provide the States with block grants for housing assistance and that the Farmers Home Administration would make only market rate loans.

Mr. Shuman, do you have an opinion on this? Can you explain to me how this would insure continued assistance to the low- and moderate-income people when we separate the financing of loans from the interest subsidies?

Mr. SHUMAN. Congressman, I must apologize for not having had an opportunity yet to completely review those proposals. I have been at hearings Tuesday, Wednesday, and all day today and I have not had an opportunity to examine those proposals, so I cannot comment. I would provide a response for the record.

Mr. HUBBARD. Thank you for providing the answer for the record later, as soon as possible.

[At the request of Congressman Hubbard, the following additional information was submitted for inclusion in the record by Mr. Shuman:]

RESPONSE RECEIVED FROM MR. SHUMAN

It may be possible with block grants that many loans currently made by FmHA could and would be made by private lenders, if the interest subsidy currently available on FmHA loans were available on loans they originate. Because subsidies can only be obtained with FmHA loans, there is no incentive for eligible borrowers to seek private financing.

Also, block grants administered by local people may better be able to focus on the local housing needs of the area, whether it be rehabilitation, rental or new single family dwellings. Therefore, the block grant program may encourage private enterprise and also involving more local people in the decision process.

A concern is the question of how interest subsidies and loans will be matched when the two are controlled by different entities. This needs further study and until the study is completed, we are not able to take a position on the use of block grants versus the current program.

Mr. HUBBARD. One more question. Can you tell us when the Farmers Home Administration will be submitting its authorization request for fiscal year 1983?

Mr. SHUMAN. It was sent to the Congress on March 12.

Mr. HUBBARD. Thank you, Mr. Chairman. I yield back the balance of my time.

Chairman GONZALEZ. Thank you, Mr. Hubbard.

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Mr. Lundine.

Mr. LUNDINE. I was hoping the gentleman from Kentucky would yield me the time because I have a few questions.

Mr. HUBBARD. I would be happy to do that.

Mr. LUNDINE. I was kidding.

I first have to observe that your written statement today is really extraordinary for these kind of hearings in that it talks more about and the discussion here has been more about what the situation is in Farmers Home regarding programs that have been authorized in the past as opposed to what the course of policy ought to be for the future.

Now, in trying to look toward the future you make the statement and emphasize it several times over that you are going to direct your resources to those persons most in need who live in truly rural areas. I am interested, if you are really concerned about the truly needy in the truly rural areas, how you can justify, for example, the proposal in those authorization requests to completely eliminate self-help housing programs.

Mr. SHUMAN. We feel that our 502 program has been and will be able to provide assistance to those who have in the past been utilizing the self-help housing program and would be looking to the 502 program to work in that area.

Mr. LUNDINE. I think that is arguable, but to go on, you also propose to eliminate all new rental assistance that make rental housing affordable for the poor.

Now, it is hard for me to understand how that squares with your statement that you really want to concentrate on the most needy.

Mr. SHUMAN. We do have in our budget for 1983 a request for additional funds for construction of rental housing. We do not anticipate, though, utilizing our rental assistance program in connection with new construction.

Mr. LUNDINE. That is the whole point. So you are going to construct 515 housing, but no poor people are going to be able to get in there without that assistance, right?

Mr. SHUMAN. We feel that the regular 515 program utilizing our interest credit authorities, which can bring the interest rate down to 1 percent, will make available rental rates in smaller rural communities where we find construction costs not as high as in some larger communities to a level that will be affordable by low-income rural people.

Mr. LUNDINE. Well, with respect to that high cost of housing construction, I think it is a tenuous argument at best that it has only to do with how large the community is. Last year in New York, for example, which tends to be a fairly high-cost rural housing area partly because of climate, funding for more than 180 units had to be returned because they could not be constructed.

The delay in obligating rental assistance this year—less than 14 pecent had been obligated by the end of February—could force New York to return most of the $25 million that has been allocated for the section 515 program.

My question is, is any effort being made to speed up the obligation of rental assistance so that the 515 program can actually be constructed this year?

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Mr. SHUMAN. Early in fiscal 1982 in an effort to make sure that our rental assistance program funds would move to those—would be utilized for expiring contracts and for so-called patchout, there were some restrictions in that regard.

For new construction, however, we are now moving forward and utilizing those remaining funds for new projects. It has speeded up dramatically in recent weeks.

Mr. LUNDINE. Mr. Shuman, I am disturbed by what appears to be a deliberate effort——

Mr. SHUMAN. Mr. Chairman, I may have gotten the wrong information here.

[Pause.]

Mr. SHUMAN. Mr. Elwell informs me we are still doing the patchout but we do anticipate later on some funds being utilized for new construction. I am sorry for that.

Mr. LUNDINE. I am disturbed by what appears to be a deliberate effort by the Farmers Home Administration to hold back housing funds at a time when housing assistance is desperately needed.

At the beginning of this month, 5 months into the fiscal year, your agency had obligated less than 17 percent of its total program funding. For the section 515 program, 3.3 percent of the funds have been obligated; 23 percent of section 502 subsidized loans, and less than 15 percent of the section 504 repair loans had been committed after 5 months, almost half of the year.

How do you explain these low application rates as anything other than a purposeful slowdown in the agency's operations?

Mr. SHUMAN. Mr. Congressman, the FmHA at the beginning of this fiscal year specifically directed each of its State directors to make sure that credit for farming purposes was made available early this spring. Many State directors transferred people from one part of the State to the other to make sure the farmers received their operating credit in a timely manner to get their crops in in 1982.

That effort is now nearly complete. We anticipate that the obligation rate will increase dramatically as that effort to provide credit for farming purposes is completed.

Mr. LUNDINE. Just to give you the experience of one rural area, I have been informed that the farm credit has not been very speedy. Yet, in your staff changes you mentioned—and I understand that you have to have staff cutbacks—all are at service delivery levels. In our area right now, if you had an acceptable 502 loan, the waiting period is more than 6 months. Not a single person is cut back at the State office, but everyone is cut back there at the service or action point.

I wonder if you think that is really consistent with the objective, regardless of the tradeoff. And I understand you have a variety of functions, but I wonder if that is consistent with this effort to move things along, whether it be in terms of either agricultural loans or housing.

Mr. SHUMAN. We have recently given direction to State directors as to how many people they can have in their State staff. We have made some reductions in what we can utilize in the National Office in an effort to make sure that we have a flowdown of positions

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from the National Office to the State offices, on down through to the county offices.

I am not sure about the details of what type of effect that program or proposal has had on the State of New York. I do know, though, that the State of New York has been utilizing a lot of temporary employees, has been utilizing a lot of CETA funded employees, more than has been the situation as far as averages are concerned across the United States. And expiration of funds in those authorities may have had more of an impact on New York than it had across the country.

Mr. LUNDINE. I do not mean to get into too much detail about it. You are right; many of those people—not CETA, they are part time—but they are the persons that have been moving the loans in the past.

Mr. SHUMAN. We are trying to find ways to stop utilizing—where we were doing so improperly—the temporary employee authority we have, and shift that employment over so that we have permanent employees working there.

Mr. LUNDINE. I sincerely hope that you will try to operate as lean an overhead and administrative burden, and as strong a service and action delivery level as you possibly can.

I want to ask one other question. We are all concerned about the cost of housing. Some of the 515 programs, projects have not been—as I have alluded to before, have not been able to be constructed because of a lack of rental assistance. Given the large number of old houses in many small rural communities, it seems to me that 515 funds could be used to rehabilitate old structures into rental units and initiate a cost savings and bring these units within the range of eligible tenants. That is one concern I have.

I am told, though, that rehabilitation will have to conform to new construction standards, both inside and outside a house, and that makes rehabilitation virtually impossible under the program. Now, I do not think I have to explain that I do not want to see you build substandard units. We have enough of them in rural America as it is. But could you not allow for a little flexibility in this regard?

Mr. SHUMAN. Our effort in a 515 program is to make sure that we have good rental housing available in those areas. We have found in the FmHA program that we can do that job better through the use of new construction. We do finance rehabilitation work with our 502 program, and have gone that way many times very successfully with the 502 program.

Mr. LUNDINE. Why do you feel it is less expensive to build a new house than to rehabilitate an old one? Why do you apply the same standard? I mean quite obviously, an old house—and many of these are hilarious because of a lot of physical features—has difficulty meeting the same standards as a new one.

Mr. SHUMAN. We would not insist on exactly the same standards between an old house and new construction. We do ask, though, that if the old structure can be brought up to conditions as far as energy is concerned, then we will provide funds for that effort. But obviously, it is impossible to bring old housing completely in line with new construction.

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We must meet the intent of the construction standards that we operate under, and that is the way we hope we can continue with the program.

Mr. LUNDINE. Well, I am encouraged. In other words, inspite of what you said before, you would accept a section 515 proposal for rehabilitation, and you might be able to be flexible on the standards?

Mr. SHUMAN. Absolutely. We would accept an application along those lines. However, as I said earlier, we find more problems with that than we do with working with the single-family house that we rehabilitate.

Mr. LUNDINE. Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you. Mr. Vento?

Mr. VENTO. Thank you, Mr. Chairman. Mr. Shuman, you pointed out this problem with delinquency here about 30 percent. It seems rather high. Is that due to the economy or is that due to just bad credit risks? What is the reason for that?

Mr. SHUMAN. I hate to point fingers and try to identify exactly what the problem is; but as I alluded to earlier, we have got all kinds of reasons.

Mr. VENTO. I think we have to understand the problem if we are going to solve it, so I think a good analysis of the problem had best be made.

Mr. SHUMAN. We do that on an individual case basis. That is the intent of our immediate followup with the delinquent accounts, to find out what is causing the delinquency in that specific instance. It may be because, as I said in my testimony, just a failure to pay. It may be because of an income problem. It may be because of lots of other situations.

Mr. VENTO. Well, OK, let us say we have a problem, we do not know why it is there.

Mr. SHUMAN. Sir, we know why it is there in each individual situation.

Mr. VENTO. No, no. OK, there is no general reason that you are going to give us for this. Some of us might say it is Reaganomics, but apparently, it is something that —is it something that has been there for a while? Are these mostly old or are they of recent vintage?

Mr. SHUMAN. The number of delinquent accounts drops with—in our aging program, as the chairman read to us a while ago, or asked me a question a while ago, about our delinquency account aging statistics. The highest percentage of the delinquencies are those that are only behind one payment. The lowest percentage are those that are behind more payments.

Mr. VENTO. So it is not a serious problem?

Mr. SHUMAN. No, it is a serious problem and one we are paying attention to and one we are trying to find solutions to on an individual case basis.

Mr. VENTO. You offered a number of alternatives, and I will get to what I am driving at. You offer a couple—granting moratoriums on loan payments for conditions due to unemployment, illness, whatever the support prices are, I guess, for grain. The thing is, though, one of them is eligible for interest credit assistance.

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Now have you sought, because you have this great number of these—have you sought more money from Congress for that particular program this year? You have some of the servicing alternatives which are paid for. One would be interest credit assistance. Have you sought more money to help meet that particular need? You are identifying a need here. Have you sought extra dollars for this or not?

Mr. SHUMAN. If the loan was authorized in prior years—and that is what we are talking about here——

Mr. VENTO. Yes, OK, fine.

Mr. SHUMAN. Then the Agency has authority to grant interest credit out of the revolving fund without additional authorization from Congress, and that is what we do.

Mr. VENTO. How does that affect the revolving fund?

Mr. SHUMAN. It affects the revolving fund in that more moneys are used out of the revolving fund for that purpose. Then later, when we come to Congress for a request for losses or to refund that or put money back into that revolving fund, then that additional interest credit is reflected in that request.

Mr. VENTO. Well, have you made that request this year? Is that reflected in what you are seeking from Congress this year?

Mr. SHUMAN. Yes, the request that we will be asking Congress for in 1983, reflects the usage, the losses in the fund in fiscal year 1981.

Mr. VENTO. Can you give me some idea, Mr. Shuman, of the magnitude of those particular requests this year as compared to recent years when we did not have those problems?

Mr. SHUMAN. Mr. Anderson is turning to those figures.

Mr. VENTO. If you can submit those for the record, unless you have them there right now—are you ready to give them? That is fine.

Mr. SHUMAN. We have them right here.

Mr. VENTO. Fine.

Mr. SHUMAN. 1981, $504 million; 1982, $575 million; 1983, the estimate for 1983 is $1,109 million.

Mr. VENTO. Does that include the payments on rental assistance?

Mr. SHUMAN. Yes, sir.

Mr. VENTO. It is not just the home delinquency we are talking about. That includes rental assistance payments. We would like to isolate this out so we could actually see the effect of the actual losses that you are sustaining in this particular program.

Mr. SHUMAN. Mr. Anderson may have those numbers here, too. If not, I will submit them for the record.

Mr. VENTO. Well, if that is what you want to do.

[At the request of Congressman Vento, the following additional information was submitted for inclusion in the record by Mr. Shuman:]

RESPONSE RECEIVED FROM MR. SHUMAN

The following is our estimate of losses to the Revolving Fund for fiscal year 1982 because of:

The granting of interest credit	$694,000,000
Delinquency	$185,000,000
Moratoriums	$1,200,000

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The interest credit amount represents all borrowers on interest credit including those granted interest credit because of servicing actions.

Mr. VENTO. Let me ask you this, Mr. Shuman. Does these requests, then, adversely affect the ability of that revolving fund for the purpose of being able to get new starts and additional rental assistance? Do they affect that when you use the money in this particular manner?

Mr. SHUMAN. No; they do not.

Mr. VENTO. They do not affect the individuals that you are able to serve? The number of individuals that you were able to serve? Is that what you are telling us?

Mr. SHUMAN. The limitations we have on the utilization of revolving funds is the level of authorization established by Congress.

Mr. VENTO. So that they operate independently? The reason I get around to that question is that I picked up very carefully—you even underlined for us on page 2 here—that the priority apparently—I do not know if you said priority, I do not want to misuse your words, the goal is serving those who need it most the most, and that is underlined, the purpose of our decision is to direct rental assistance funds to existing and rural rental properties.

Now, I do not know if I understand that. What that sounds like is that existing rental projects, those people already living in assisted housing are receiving the priority based on the policy you have set forth here as opposed to extending any new or establishing any new rental units. Is that right?

The problem I think most members might have with that, just on the surface of it, is there is this great need for housing in most areas, and those that are already in public housing you are saying that is your priority, and we are sort of neglecting or not looking at those that are not living in assisted housing, although their needs might indeed, in my judgment, be greater.

I mean, if someone is getting housing in an area that is already in the program, then why should our priority be to take care of those already in existing housing? We would like to maintain that stock, but should we not do both?

Mr. SHUMAN. Congressman, we feel the reason we need to put this in as the No. 1 priority is because in those rental projects that we have financed where the individual is living in that unit without the benefit of rental assistance and the cost of rent on that project goes up, he may be forced to leave that unit unless we come in with a rental assistance contract to cover that unit.

So we have established as a priority to come in and provide rental assistance to those individuals, those families that are now living in existing financed Farmers Home Administration projects without rental assistance.

Mr. VENTO. Well you know, the point being, of course, when you do that, is that do you go through any type of needs test at that particular point then or what?

Mr. SHUMAN. Yes, sir, there is a system to identify whether or not that individual is eligible for rental assistance.

Mr. VENTO. Would you say they were more in need than those that are not in need? Can you absolutely say that, or is that probably given that they are probably not.

Mr. SHUMAN. The problem occurs that if we do not——

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Mr. VENTO. I know they are in place, I understand that. If you do not, you have got some moving around. That is probably not desirable. You are balancing that off apparently, is what I expect you are saying. You understand there is a problem. Do you see what I am trying to get at or not?

Mr. SHUMAN. We feel that our main priority is to take care of those people that we have already promised housing. And if suddenly they are moved into a unit and then through no fault of their own, through inflation or whatever other factors may have caused the rent on that unit to go up, we need to come into that unit and provide them with assistance so that they can continue to live in that unit.

Mr. VENTO. The point is you have got two commitments. One is the Farmers Home Administration funding of rental units. You have made that loan; now you are overlaying that with another type of assistance which may or may not be prioritized. You say you have a needs test that is involved of some sort, but you are not necessarily saying that their needs—in other words, you are just maintaining that particular facility, the integrity of it. I guess the question is: Are we actually getting into those that have the greatest need, or not, based on that. That is the relevant question.

Did you do an analysis of that before you initiated this policy?

Mr. SHUMAN. I cannot say that we ran a specific analysis dealing with the question that you raised, but we do know that the feasibility of many projects to continue to provide any kind of housing does rest squarely on the ability of those units or those individuals in there to have rental assistance to them. We think it is imperative to continue to provide this housing, and we have opted to make this a No. 1 priority.

Mr. VENTO. What type of dollars are we talking about here that are being utilized for this particular purpose? Are we talking about a couple million dollars, or what are we talking about? You say you have done no specific analysis of the problem that I raised. What is the magnitude of money being spent here? But there has not been an analysis on that basis.

Mr. SHUMAN. We have analyzed it to the extent that we think there are needs for about 16,000 units that will need that kind of assistance.

Mr. VENTO. The money will be on an annual basis? What will the dollar figure be in terms of rental assistance? Could you give me a ball-park figure?

Mr. SHUMAN. It would be $150 million to $185 million that would be for the extensions.

Mr. VENTO. I think it is really important to get a closer look at that particular type of problem.

Mr. SHUMAN. Yes.

Mr. VENTO. I can appreciate, and I guess I might even agree with you in the short term, but in the long term, if that is to become a policy I think the members of this committee would like to be a little more satisfied. If only half of it is going to the most in need, that means we are spending a good amount, maybe $180 million, at the exclusion of those that have a greater need. So I think that might be something that on a short-term basis I think we can go along with that.

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In my judgment, on a long-term basis we will have to look at it.

Mr. SHUMAN. I could expand and provide for the record additional information on this subject that might be helpful to the subcommittee.

Chairman GONZALEZ. Certainly, without objection.

[At the request of Congressman Vento, the following additional information was submitted for inclusion in the record by Mr. Shuman:]

RESPONSE RECEIVED FROM MR. SHUMAN

ANALYSIS OF RA RENEWAL NEED

On March 1, 1981, the Agency conducted an analysis of the Rental Assistance program to determine the need to renew 5-year RA contracts. Using data obtained from District Office records, average monthly cost figures were constructed and projections of expiration dates were made for those contracts initiated and used by March 1, 1981. The following estimates of renewal need during fiscal years 1983 and 1984 are based on the projections obtained from the March 1, 1982, study.

EXPIRATION DATES ON 5-YEAR RA UNITS [1]

	End of money or term	End of money
Fiscal year 1983	16,700	4,000
Fiscal year 1984	13,050	5,500

[1] Assumes 15 percent inflation.

After adjusting the estimates above to allow for possible discrepancies, the current fiscal year 1983 budget request is for $185 million to renew 1,500 agreements which assist 17,560 tenant households.

THE IMPORTANCE OF ADDRESSING RENEWAL NEED

If expiring contracts are not renewed, the effect on tenants receiving rental assistance will be dramatic. Since the current average monthly RA payment is $96 per tenant household, if their RA unit is not renewed many low-income households would be unable to afford the increased rent and be forced to leave the project. Replacing them with higher-income tenants would be necessary, but the result would be contrary to the intent of Congress to direct at least 30 percent of FmHA housing programs to households with less than 50 percent of area median income.

ASSIGNMENT OF RENTAL ASSISTANCE (RA) UNITS

A. Objective—Assign RA to tenant households in the project most in need.

B. Process:

1. FmHA borrower verifies and certifies each tenant household's adjusted income.

2. FmHA borrower assigns RA to the tenant household paying the highest percentage of adjusted monthly income for rent and utilities.

3. The FmHA District Office identifies and works with the FmHA borrower to correct any RA application discrepancies found in the "project worksheet" which the borrower submits along with their loan payment to FmHA on a monthly basis. The project worksheet contains rental and income information on each tenant household in the project.

Mr. VENTO. Thank you, Mr. Administrator.

Chairman GONZALEZ. Mr. Watkins, we are honored and privileged to have you with us. We were following the custom of recognizing the regular members of the subcommittee first, but we certainly want to recognize you. Did you wish to seek recognition at this point?

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Mr. WATKINS. If you do not mind, I would. I thoroughly appreciate it. I have been interested in the question. So, Mr. Shuman, I would like to say I understand, I am very close to the Farmers Home Administration. I probably know every one of my county supervisors personally in my district because we have a similar background in agriculture. I do know the shortage of personnel. I do not know how to work that problem out, but I am ready and willing to attempt to do that.

You mentioned shifting some people during the time of heavy agricultural activity. I can feel and understand that, but when you leave a void in other areas where there is a backlog of housing, would it be helpful if they would have to reciprocate and say, "OK, you have got so many hours going into your county to help for agriculture, you are going to have to go help John Doe for so many hours." That may mean that he has a backlog of people in his county that have to wait. But I am sure that would help some of us in the lower income areas and the areas—counties—that do not have strong agriculture. They would feel like they would benefit by it.

Mr. SHUMAN. I am not sure, Mr. Watkins, that I can agree that it should be hour for hour, dollar for dollar and person to person. But obviously, State Directors should have and utilize, and I would encourage them to exercise their management prerogatives to go where the need is.

Mr. WATKINS. I would negotiate the hours, but I would just say that they would be required to go give some hours to some of those counties in order to receive help themselves.

Mr. SHUMAN. Yes.

Mr. WATKINS. Let me ask another question. It is something which I think the committee, hopefully, and the chairman and staff, will take note. Do you enforce the distribution of moneys or the funds for housing, based on the needy areas? And would it not be wise? We have said we are going to serve the people who most need the help. I am talking about distribution.

You distribute to the States based on need and then, when you get to the States, you should make sure the States distribute the money based upon the needy areas. By that I mean, you use the county. The county has so many people in the poverty area that so many of those units are going for. Now I am not actually saying that it has to go to the lowest income person there because what I am projecting to you is this, on a demonstration basis, if you give it to the needy counties, then you will have an upgrading of people. Now, maybe some of the lower income people could not quite get up into the new house, but you would have some people that would move out, perhaps, of a rental unit or a housing unit and up into a better situation. They move up and it would be kind of a stepladder-type approach, which I think would be very workable if you had the money to make sure about it.

I would like to state to the committee that if we do not do it by regulation, then we might put it in a statute that the money is to be distributed on a formal basis to the States and that they have to distribute it to those counties with the lowest income, et cetera, in the areas.

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Mr. SHUMAN. If you are asking me to respond to that kind of a proposal, first I would say that the State Directors now have the option to distribute to the districts and the counties if they want to. Some do so, some hold it in a pool and use out of it.

Mr. WATKINS. I question Mr. Chairman and the staff, whether the State director should have that option in the beginning. I think that option should not be there. It should be directed to send it that way and the pooling effect should come at the end, such as you do from the national. I think that is the way it should be in order to comply with the intent of the law.

So I hope that you will look at that. I will ask the staff and my staff to make sure we follow up on that because I think that is going to be very, very important if we are to fulfill the need and the intent of the law.

Mr. SHUMAN. Again, not to take up a lot of the time of the subcommittee, I have some concerns on that and would like to supply them for the record.

[At the request of Congressman Watkins, the following additional information was submitted for inclusion in the record by Mr. Shuman:]

RESPONSE RECEIVED FROM MR. SHUMAN

The allocation of single family housing funds by the National Office to the states is made on the basis of a mathematical formula that includes pertinent factors developed from the loanmaking and servicing experience of the Farmers Home Administration (See copy attached for Sections 502 and 504 loans and grants).

Reallocation of funds within the states is left to the best judgment of each State Director as local conditions will determine the best and most equitable use of funds which may be accomplished by reallocation to the county or District Office, by retention of the funds in a State Office pool, or a combination of these methods. The Agency's recommendation to the State Director in reallocating funds to county or District Offices is that the State Office use the National Office allocation formula. This policy has been found to be adequate during the last few years.

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1987

SUBJECT: Allocation Computations
Fiscal Year 1982 Allocation
Section 502 Subsidized Insured RH Loans

The following method was used to allocate Section 502 subsidized RH funds to states. The necessity for making certain assumptions combined with factual data is essential in utilizing a mathematical approach for distribution of funds. Selected factual data and assumptions were made to provide the best distribution of limited resources on a reasonably equitable basis Lack of data and need for providing a minimum program level required some administrative adjustment.

I. Amount Available for Allocation

Distributed by		Low Income In millions of dollars
(a)	Formula	2,089.8
(b)	Base Amount	106.0
(c)	Administrative Allocation	11.0
(d)	Reserve	93.2
	Total	2,300.0

II. Basic Formula Criteria, Data Sources and Weight

The selected criteria ident fy essential elements that are necessary to compare the need of the various states for rural housing in order to make the best use of available program funds. The data source as indicated for each criterion used is the best and latest available data. The weight expressed in percentage is the relative value of the selected criteria. The weight assigned each criterion is constant for all states.

Criteria and Data Source	WEIGHT LOW INCOME
A. State's percentage of the national rural population (1970 census definition of rural areas) times the state's growth rate as compared to the national growth rate (1980 census data)	30

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B. State's percentage of the national rural population living in dwellings which lack complete plumbing and/or are crowded (substandard) (Rural Housing Survey-1977) — 30

C. State's percentage of rural population below the low-income limit (FmHA 1981 data for justification for low income). — 30

D. Historical usage of funds: The state's percentage of outstanding Section 502 RH loans (June 1981 - 581 report, Monthly Payment Delinquency Report) — 10

Total weight of criteria — 100%

E. Housing cost adjustment - the state's average loan amount for a new dwelling divided by the national average loan amount for a new dwelling (1981 - 617 report, Direct and Insured RH Loans Use of Funds).

F. Delinquency adjustment - the state's total delinquency and delinquency 3 months and over as compared to the national delinquency for the same factors (September 1981-581 report).

III. Basic Formula stated as used to make computations.

Step 1. Aa+Bb+Cc+Dd = State Factor

A, B, C, and D represent the selected criteria expressed as the state's percentage of the U.S. total

AND

a, b, c, and d represent the weight, expressed as a percentage given the selected criteria.

Example of Basic Formula

	A a	B b	C c	D d	= State Factor
Alabama	.02886(30)	+ .03742(30)	= .02901(30)	+ .0393(10)	= .032517

The state factor determined the state's percentage of housing units that can be provided by the national allocation.

Step 2. To change the state's percentage of housing units to dollars, we adjusted each factor by the cost difference of providing a housing unit in the state. The housing cost factor is the average loan amount for a new dwelling for that state divided by the national average loan amount for a new dwelling.

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Example of Housing Cost Adjustment

Alabama housing cost was $28,800 - $37,000 (the national average) = .78

.32517 (.78) = .0253632 - Alabama's state percentage of RH funds.

Step 3. The state's percentage of RH funds times the amount of funds to be allocated by formula is the state's allocation before adjustment for delinquency.

Example of Allocated Funds before Delinquency

Alabama - $2,183,000,000 (allocated funds) x .0253632 = $55,367,870

Step 4. Delinquency Adjustment

States with an above-average delinquency need to use available manhours to supervise and service delinquent accounts. In September of 1981, 20 states had a combined "total" delinquency and "3 months and over" delinquency that exceeded the national combined rates. We have reduced their allocation of 502 RH subsidized funds. The percent by which a state's allocation was reduced is the percent the state's combined delinquency exceeded the national combined delinquency.

Example of Delinquency Adjustment

The national combined delinquency percentage equaled 33.3. Arizona's combined percentage equaled 46.6. The percent of funds withheld from Arizona's allocation is 46.6 - 33.3 = 13.3. Before the delinquency adjustment, Arizona's allocation was 18 77271 million dollars. The reduction in Arizona's allocation is 18.77271 x .13 - 2.44045 million dollars or net 16.33226 million dollars allocated funds after delinquency adjustment.

IV. Administrative Allocation

Guam and the Trust Territories were given $11.0 million because data for the formula were unavailable to distribute funds.

V. Base Allocation

One hundred and six million dollars were given in equal shares of 2 million dollars each to all states. Two million dollars were administratively determined as the minimum program level required to service existing accounts and carry out a rural housing program.

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UNITED STATES DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION
WASHINGTON, D.C. 20250

SUBJECT: Allocation Computations
PROGRAM: 502 RH Subsidized
FISCAL YEAR: 1982

STATE	A FACTOR "B"	B ALLOCATION (MILLIONS)	C DELINQUENCY ADJUSTMENT FACTOR	D DELINQUENCY ADJUSTMENT AMOUNT (MILLIONS)	E FORMULA ALLOCATION B-D=E (MILLIONS)	F ADMIN. ALLOCATION (MILLIONS)	G BASE ALLOCATION (MILLIONS)	H TOTAL ALLOCATION E+F+G=H (MILLIONS)
AL	2.53632	55.36787	.0	0.00000	55.36787		2.0	57.4
AK	.66833	14.58964	.0	0.00000	14.58964		2.0	16.6
AZ	.85995	18.77271	.13	2.44045	16.33226		2.0	18.3
AR	2.10300	45.90849	.11	5.04993	40.85856		2.0	42.9
CA	3.49714	76.34257	.0	0.00000	76.34257		2.0	78.3
CO	.91655	20.00829	.05	1.00041	19.00788		2.0	21.0
CT	.98463	21.49447	.0	0.00000	21.49447		2.0	23.5
DE	.22372	4.88381	.16	0.78141	4.10240		2.0	6.1
FL	2.41425	52.70308	.0	0.00000	52.70308		2.0	54.7
GA	3.94724	86.16825	.0	0.00000	86.16825		2.0	88.2
HI*	.54691	11.93905	.0	0.00000	11.93905		2.0	13.9
ID	.82533	18.01695	.01	0.18017	17.83678		2.0	19.8
IL	2.98936	65.25773	.08	5.22062	60.03711		2.0	62.0
IN	2.97085	64.85366	.11	7.13390	57.71976		2.0	59.7
IA	2.13700	46.65071	.0	0.00000	46.65071		2.0	48.7
KS	1.12603	24.58123	.0	0.00000	24.58123		2.0	26.6
KY	3.28351	71.67902	.0	0.00000	71.67902		2.0	73.7
LA	2.98144	65.08484	.0	0.00000	65.08484		2.0	67.1
ME	1.24749	27.23271	.0	0.00000	27.23271		2.0	29.2
MD	1.44828	31.61595	.05	1.58080	30.03515		2.0	32.0
MA	1.24808	27.24559	.0	0.00000	27.24559		2.0	29.2
MI	3.72719	81.36456	.07	5.69552	75.66904		2.0	77.7
MN	2.42962	53.03860	.0	0.00000	53.03860		2.0	55.0
MS	2.48701	54.29143	.04	2.17166	52.11977		2.0	54.1
MO	2.38051	51.96653	.0	0.00000	51.96653		2.0	54.0
MT	.59332	12.95218	.0	0.00000	12.95218		2.0	15.0
NE	.95215	20.78543	.0	0.00000	20.78543		2.0	22.8
NV	.26022	5.68060	.0	0.00000	5.68060		2.0	7.7
NH	.67330	14.69814	.0	0.00000	14.69814		2.0	16.7
NJ	1.06191	23.17276	.02	0.46346	22.70930		2.0	24.7
NM	.78754	17.19200	.08	1.37536	15.81664		2.0	17.8

1990

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UNITED STATES DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION
WASHINGTON, D.C. 20250

SUBJECT: Allocation Computations
PROGRAM: 502 RH Subsidized
FISCAL YEAR: 1982
PAGE: 2 OF 2

STATE	A FACTOR "B"	B ALLOCATION (MILLIONS)	C DELINQUENCY ADJUSTMENT FACTOR	D DELINQUENCY ADJUSTMENT AMOUNT (MILLIONS)	E FORMULA ALLOCATION B-D=E (MILLIONS)	F ADMIN. ALLOCATION (MILLIONS)	G BASE ALLOCATION (MILLIONS)	H TOTAL ALLOCATION E+F+G=H (MILLIONS)
NY	3.47128	75.77804	.12	9.09336	66.68468		2.0	68.7
NC	5.20536	113.63301	.0	0.00000	113.63301		2.0	115.6
ND	.73289	15.99899	.0	0.00000	15.99899		2.0	18.0
OH	3.66284	79.95980	.04	3.19839	76.76141		2.0	78.8
OK	1.60380	35.01095	.0	0.00000	35.01095		2.0	37.0
OR	1.52364	33.26106	.02	0.66522	32.59584		2.0	34.6
PA	4.16821	90.99202	.03	2.72976	88.26226		2.0	90.3
RI	.19530	4.26340	.0	0.00000	4.26340		2.0	6.3
SC	2.86557	62.55539	.0	0.00000	62.55539		2.0	64.6
SD	.64940	14.17640	.0	0.00000	14.17640		2.0	16.2
TN	2.87767	62.81954	.01	0.62820	62.19134		2.0	64.2
TX	3.28020	71.60677	.0	0.00000	71.60677		2.0	73.6
UT	.59537	12.99693	.01	0.12997	12.86696		2.0	14.9
VT	.59167	12.91616	.0	0.00000	12.91616		2.0	14.9
VA	3.40579	74.34840	.23	17.10013	57.24827		2.0	59.2
WA	1.70084	37.12934	.0	0.00000	37.12934		2.0	39.1
WV	1.95753	42.73288	.0	0.00000	42.73288		2.0	44.7
WI	2.69110	58.74671	.0	0.00000	58.74671		2.0	60.7
WY	.33612	7.33750	.0	0.00000	7.33750		2.0	9.3
PR	3.99117	87.12724	.29	25.26690	61.86034		2.0	63.9
VI	.18647	4.07064	.30	1.22119	2.84945		2.0	4.8
WPT**						11.0	2.0	13.0
FMHA ST.TOTALS		2,183.00002		93.12681	2,089.87321	11.0	106.0	2,206.8
NATIONAL OFFICE		0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINANCE OFFICE		0.0	0.0	0.0	0.0	0.0	0.0	0.0
RESERVE		0.0	0.0	0.0	0.0	0.0	0.0	93.2
FMHA TOTALS		2,183.00002		93.12681	2,089.87321	11.0	106.0	2,300.0

* Includes American Samoa
**Includes Guam, Commonwealth of the Northern Marianas and Trust Territory of the Pacific Islands.

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SUBJECT: Allocation Computations
Fiscal Year 1982 Allocations
Section 502 Nonsubsidized Insured RH Loans

The following method was used to allocate Section 502 nonsubsidized RH funds to states. The necessity for making certain assumptions combined with factual data is essential in utilizing a mathematical approach for distribution of funds. Selected factual data and assumptions were made to provide the best distribution of limited resources on a reasonably equitable basis. Lack of data and need for providing a minimum program level required some administrative adjustments.

I. Amount Available for Allocation

Distributed by	Moderate Income In Millions of Dollars
(a) Formula	359.2
(b) Base Amount	53.0
(c) Administrative Allocation	2.0
(d) Reserve	15.8
Total	430.0

II. Basic Formula Criteria, Data Sources and Weight

The selected criteria identify essential elements that are necessary to compare the need of the various states for rural housing in order to make the best use of available program funds. The data source as indicated for each criterion used is the best and latest available data. The weight expressed in percentage is the relative value of the selected criteria. The weight assigned each criterion is constant for all states.

Criteria and Data Sources	WEIGHT LOW INCOME
A. State's percentage of the national rural population (1970 census definition of rural areas) times the state's growth rate as compared to the national growth rate (1980 census data)	40

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B.	State's percentage of the national rural population living in dwellings which lack complete plumbing and/or are crowded (substandard) (Rural Housing Survey-1977).	40
C.	Historical usage of funds: The state's percentage of outstanding Section 502 RH loans (June 1981 - 581 report, Monthly Payment Delinquency Report)	20
	Total weight of criteria	100%

D. Housing cost adjustment. The state's average loan amount for a dwelling divided by the national average loan amount for a new dwelling - (1981 - 617 report, Direct and Insured RH Loans Use of Funds).

E. Delinquency adjustment - the State's total delinquency and delinquency 3 months and over as compared to the national delinquency for the same factors (September 1981 - 581 report).

III. Basic Formula stated as used to make computations.

Step 1. Aa+Bb+Cc = State Factor

A, B, and C represent the selected criteria expressed as the state's percentage of the U.S. total

AND

a, b, and c represent the weight, expressed as a percentage given the selected criteria.

Example of Basic Formula

	A	a		B	b		C	c	= State Factor
Alabama	.02886	(40)	+	.03742	(40)	+	.0393	(20)	=.03436

The state factor determined the state's percentage of housing units that can be provided by the national allocation.

Step 2. To change the state's percentage of housing units to dollars, we adjusted each factor by the cost differences of providing a housing unit in a state. The housing cost factor is the average loan amount for a new dwelling for that state divided by the national average loan amount for a new dwelling.

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Example of Housing Cost Adjustment

Alabama housing cost was $28,800 ÷ $37,000 (the national average) = .78

.03436 (.78) = .02680 - Alabama's state percentage of RH funds.

Step 3. The state percentage of RH funds times the amount of funds to be allocated by formula is the state's allocation before adjustment for delinquency.

Example of Allocated Funds Before Delinquency

Alabama - $375.0 million (allocated funds) x .02680 = $10.050

Step 4. Delinquency Adjustment

States with an above-average delinquency need to use available manhours to supervise and service delinquent accounts. In September of 1981, 20 states had a combined total delinquency rate and delinquency rate of 3 months and over that exceeded the national combined rates. Administratively we have reduced their allocation of 502 RH subsidized funds. The funds withheld from these states are held in the national pool. The amount a state was reduced was the percent the state s total delinquency and delinquency rate of 3 months and over exceeded the national combined percentage rates.

Example of Delinquency Adjustment

The national combined delinquency percentage equaled 33.3. Arizona's combined percentage equaled 46.6. The percent of funds withheld from Arizona's allocation is 46.6 - 33.3 or 13.3. Before the delinquency adjustment, Arizona's allocation was 3.848 million dollars. The reduction in Arizona allocation was 3.848 x .13 = .500 million dollars or net 3.348 million dollars allocated funds after delinquency adjustment.

V. Base Allocation

Fifty three million dollars were given in equal shares of one million each to all states. One million dollars was administratively determined as the minimum program level required to service existing accounts, transfers and credit sales.

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UNITED STATES DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION
WASHINGTON, D.C. 20250

SUBJECT: Allocation Computations
PROGRAM: 502 RH Nonsubsidized
FISCAL YEAR: 1982

	A	B	C	D	E	F	G	H
STATE	FACTOR %	ALLOCATION (MILLIONS)	DELINQUENCY ADJUSTMENT FACTOR	DELINQUENCY ADJUSTMENT AMOUNT (MILLIONS)	FORMULA ALLOCATION B-D=E (MILLIONS)	ADMIN. ALLOCATION (MILLIONS)	BASE ALLOCATION (MILLIONS)	TOTAL ALLOCATION E+F+G=H (MILLIONS)
AL	2.680	10.050	.0	0.000	10.050		1.0	11.1
AK	.677	2.539	.0	0.000	2.539		1.0	3.5
AZ	1.026	3.848	.13	0.500	3.348		1.0	4.3
AR	2.330	8.738	.11	0.961	7.777		1.0	8.8
CA	3.158	11.843	.0	0.000	11.843		1.0	12.8
CO	0.884	3.315	.05	0.166	3.149		1.0	4.1
CT	.911	3.416	.0	0.000	3.416		1.0	4.4
DE	.239	0.896	.16	0.143	0.753		1.0	1.8
FL	2.314	8.678	.0	0.000	8.678		1.0	9.7
GA	3.446	12.923	.0	0.000	12.923		1.0	13.9
HI*	0.564	2.115	.0	0.000	2.115		1.0	3.1
ID	0.868	3.255	.01	0.033	3.222		1.0	4.2
IL	2.875	10.781	.08	0.862	9.919		1.0	10.9
IN	2.812	10.545	.11	1.160	9.385		1.0	10.4
IA	2.082	7.845	.0	0.000	7.845		1.0	8.8
KS	1.090	4.088	.0	0.000	4.088		1.0	5.1
KY	3.344	12.540	.0	0.000	12.540		1.0	13.5
LA	3.032	11.370	.0	0.000	11.370		1.0	12.4
ME	1.409	5.284	.0	0.000	5.284		1.0	6.3
MD	1.422	5.333	.05	0.267	5.066		1.0	6.1
MA	1.125	4.219	.0	0.000	4.219		1.0	5.2
MI	3.389	12.709	.07	0.890	11.819		1.0	12.8
MN	2.352	8.820	.0	0.000	8.820		1.0	9.8
MS	2.936	11.010	.04	0.440	10.570		1.0	11.6
MO	2.436	9.135	.0	0.000	9.135		1.0	10.1
MT	.573	2.156	.0	0.000	2.156		1.0	3.2
NE	0.905	3.394	.0	0.000	3.394		1.0	4.4
NV	.233	0.874	.0	0.000	0.874		1.0	1.9
NH	.618	2.318	.0	0.000	2.318		1.0	3.3
NJ	1.091	4.091	.02	0.082	4.009		1.0	5.0
NM	.842	3.158	.08	0.253	2.905		1.0	3.9

1995

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UNITED STATES DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION
WASHINGTON, D.C. 20250

SUBJECT: Allocation Computations
PROGRAM: 502 RH Nonsubsidized
FISCAL YEAR: 1982

STATE	A FACTOR %	B ALLOCATION (MILLIONS)	C DELINQUENCY ADJUSTMENT FACTOR	D DELINQUENCY ADJUSTMENT AMOUNT (MILLIONS)	E FORMULA ALLOCATION B-D=E (MILLIONS)	F ADMIN. ALLOCATION (MILLIONS)	G BASE ALLOCATION (MILLIONS)	H TOTAL ALLOCATION E+F+G=H (MILLIONS)
NY	3.193	11.974	.12	1.437	10.537		1.0	11.5
NC	5.507	20.651	.0	0.000	20.651		1.0	21.7
ND	0.738	2.768	.0	0.000	2.768		1.0	3.8
OH	3.488	13.080	.04	0.523	12.557		1.0	13.6
OK	1.705	6.394	.0	0.000	6.394		1.0	7.4
OR	1.416	5.310	.02	0.106	5.204		1.0	6.2
PA	4.282	16.058	.03	0.482	15.576		1.0	16.6
RI	.176	0.660	.0	0.000	0.660		1.0	1.7
SC	3.000	11.250	.0	0.000	11.250		1.0	12.3
SD	.677	2.539	.0	0.000	2.539		1.0	3.5
TN	2.964	11.115	.01	0.111	11.004		1.0	12.0
TX	4.070	15.263	.0	0.000	15.263		1.0	16.3
UT	0.656	2.460	.01	0.025	2.435		1.0	3.4
VT	.613	2.299	.0	0.000	2.299		1.0	3.3
VA	3.576	13.410	.23	3.084	10.326		1.0	11.3
WA	1.558	5.843	.0	0.000	5.843		1.0	6.8
WV	1.980	7.425	.0	0.000	7.425		1.0	8.4
WI	2.538	9.518	.0	0.000	9.518		1.0	10.5
WY	.336	1.260	.0	0.000	1.260		1.0	2.3
PR	3.653	13.699	.29	3.973	9.726		1.0	10.7
VI	.199	0.746	.30	0.224	0.522		1.0	1.5
OPI**						2.0	1.0	3.0
FMHA ST.TOTALS		375.008		15.722	359.286	2.0	53.0	414.2
NATIONAL OFFICE		0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINANCE OFFICE		0.0	0.0	0.0	0.0	0.0	0.0	0.0
RESERVE		0.0	0.0	0.0	0.0	0.0	0.0	15.8
FMHA TOTALS		375.008		15.722	359.286	2.0	53.0	430.0

* Includes American Samoa
**Includes Guam, Commonwealth of the Northern Marianas and Trust Territory of the Pacific Islands.

1996

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SUBJECT: Allocation Computations
Fiscal Year 1982 Allocation
Section 504 Very Low-Income Repair Loans

The following method was used to allocate Section 504 loan funds to states. The necessity for making certain assumptions combined with factual data is essential in utilizing a methematical approach for distribution of funds. Selected factual data and assumptions were made to provide the best distribution of limited resources on a reasonably equitable basis. Lack of data and need for providing a minimum program level required some administrative adjustments.

1. Amount Available for Allocation

Distributed by	Very Low-income Repair Loans In Thousands of Dollars
(a) Formula	23,602.0
(b) Base Amount	00.0
(c) Reserve	398.0
(d) Total	24,000.0

II. Basic Formula Criteria, Data Sources and Weight

The selected criteria identify essential elements that are necessary to compare the need of the various states for rural housing in order to make the best use of available program funds. The data source as indicated for each criterion used is the best and latest available data. The weight expressed in percentage is the relative value of the selected criteria. The weight assigned each criterion is constant for all states.

Criteria and Data Source	WEIGHT LOW INCOME
A. State's percentage of the national rural population living in dwellings which lack complete plumbing and/or are crowded (substandard) (Rural Housing Survey-1977)	50
B. State's percentage of rural population below the proverty level. (Rural Housing Survey-1977)	50

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III. Basic Formula stated as used to make computations.

Step 1. Aa+Bb = State Factor

A and B represent the selected criteria expressed as the state's percentage of the U.S. total

AND

a and b represent the weight, expressed as a percentage given the selected criteria.

Example of Basic Formula

	A	a	B	b	= State Factor
Alabama	.037418	(50) +	.035967	(50)	= .0366925

The State Factor determined the state's percentage of funds that can be provided by the national allocation.

Step 2. The state's factor of RH funds times the amount of funds to be allocated by formula is the state's allocation.

Example of Allocated Funds

Alabama - $23,600.00 (allocated funds) X .036692 = $865.9312

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UNITED STATES DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION
WASHINGTON, D.C. 20250

SUBJECT: Allocation Computations
PROGRAM: 504 RH Loans
FISCAL YEAR: 1982

	A	B	C	D	E	F	G	H
STATE	FACTOR %	BASIC FORMULA ALLOCATION (THOUSANDS)	DELINQUENCY ADJUSTMENT FACTOR	DELINQUENCY ADJUSTMENT AMOUNT (THOUSANDS)	FORMULA ALLOCATION B-D=E (THOUSANDS)	ADMIN. ALLOCATION (THOUSANDS)	BASE ALLOCATION (THOUSANDS)	TOTAL ALLOCATION E+F+G=H (THOUSANDS)
AL	3.6692	865.9312	.0	0.0000	865.9312		0.0	866
AK	.3455	81.5380	.0	0.0000	81.5380		0.0	82
AZ	.9673	228.2828	.0	0.0000	228.2828		0.0	228
AR	2.5912	611.5232	.0	0.0000	611.5232		0.0	612
CA	2.7701	653.7436	.0	0.0000	653.7436		0.0	654
CO	.6896	162.7456	.0	0.0000	162.7456		0.0	163
CT	.4347	102.5892	.0	0.0000	102.5892		0.0	103
DE	.1767	41.7012	.0	0.0000	41.7012		0.0	42
FL	2.8071	662.4756	.0	0.0000	662.4756		0.0	662
GA	5.0698	1,196.4728	.0	0.0000	1,196.4728		0.0	1,196
HI*	.4104	96.8544	.0	0.0000	96.8544		0.0	97
ID	.5203	122.7908	.0	0.0000	122.7908		0.0	123
IL	2.0978	495.0808	.0	0.0000	495.0808		0.0	495
IN	2.0307	479.2452	.0	0.0000	479.2452		0.0	479
IA	1.3027	307.4372	.0	0.0000	307.4372		0.0	307
KS	.8944	211.0784	.0	0.0000	211.0784		0.0	211
KY	4.4489	1,049.9404	.0	0.0000	1,049.9404		0.0	1,050
LA	3.6850	869.6600	.0	0.0000	869.6600		0.0	870
ME	.9428	222.5008	.0	0.0000	222.5008		0.0	223
MD	1.0861	256.3196	.0	0.0000	256.3196		0.0	256
MA	.5267	124.3012	.0	0.0000	124.3012		0.0	124
MI	2.5606	604.3016	.0	0.0000	604.3016		0.0	604
MN	1.9011	448.6596	.0	0.0000	448.6596		0.0	449
MS	3.9939	942.5604	.0	0.0000	942.5604		0.0	943
MO	2.8418	670.6648	.0	0.0000	670.6648		0.0	671
MT	.5748	135.6528	.0	0.0000	135.6528		0.0	136
NE	.6918	163.2648	.0	0.0000	163.2648		0.0	163
NV	.1363	32.1668	.0	0.0000	32.1668		0.0	32
NH	.3903	92.1108	.0	0.0000	92.1108		0.0	92
NJ	.6484	153.0224	.0	0.0000	153.0224		0.0	153
NM	1.1213	264.6268	.0	0.0000	264.6268		0.0	265

1999

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UNITED STATES DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION
WASHINGTON, D.C. 20250

SUBJECT: Allocation Computations
PROGRAM: 504 RH Loans
FISCAL YEAR: 1982

	A	B	C	D	E	F	G	H
STATE	FACTOR %	BASIC FORMULA ALLOCATION (THOUSANDS)	DELINQUENCY ADJUSTMENT FACTOR	DELINQUENCY ADJUSTMENT AMOUNT (THOUSANDS)	FORMULA ALLOCATION B-D=E (THOUSANDS)	ADMIN. ALLOCATION (THOUSANDS)	BASE ALLOCATION (THOUSANDS)	TOTAL ALLOCATION E+F+G=H (THOUSANDS)
NY	1.9754	466.1944	.0	0.0000	466.1944		0.0	466
NC	5.6201	1,326.3436	.0	0.0000	1,326.3436		0.0	1,326
ND	.5495	129.6820	.0	0.0000	129.6820		0.0	130
OH	3.1109	734.1724	.0	0.0000	734.1724		0.0	734
OK	1.5985	377.2460	.0	0.0000	377.2460		0.0	377
OR	.8548	201.7328	.0	0.0000	201.7328		0.0	202
PA	3.6341	857.6476	.0	0.0000	857.6476		0.0	858
RI	.1019	24.0484	.0	0.0000	24.0484		0.0	24
SC	3.4565	815.7340	.0	0.0000	815.7340		0.0	816
SD	.6559	154.7924	.0	0.0000	154.7924		0.0	155
TN	3.5827	845.5172	.0	0.0000	845.5172		0.0	846
TX	5.5504	1,309.8944	.0	0.0000	1,309.8944		0.0	1,310
UT	.3204	75.6144	.0	0.0000	75.6144		0.0	76
VT	.4256	100.4416	.0	0.0000	100.4416		0.0	100
VA	2.9875	705.0500	.0	0.0000	705.0500		0.0	705
WA	.8222	194.0392	.0	0.0000	194.0392		0.0	194
WV	2.1434	505.8424	.0	0.0000	505.8424		0.0	506
WI	1.8639	439.8804	.0	0.0000	439.8804		0.0	440
WY	.2215	52.2740	.0	0.0000	52.2740		0.0	52
PR	6.9914	1,649.9704	.0	0.0000	1,649.9704		0.0	1,650
VI	.1659	39.1524	.0	0.0000	39.1524		0.0	39
GU***	1.0402	245.4872	.0	0.0000	245.4872		0.0	245
FMHA ST.TOTALS		23,600.0000		0.0	23,600.0000	0.0	0.0	23,602
NATIONAL OFFICE		0.0	0.0	0.0	0.0	0.0	0.0	0
FINANCE OFFICE		0.0	0.0	0.0	0.0	0.0	0.0	0
RESERVE		0.0	0.0	0.0	0.0	0.0	0.0	398
FMHA TOTALS		23,600.0000		0.0	23,600.0000	0.0	0.0	24,000

* Includes American Samoa
**Includes Guam, Commonwealth of the Northern Marianas and Trust Territory of the Pacific Islands.

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SUBJECT: Allocation Computations
Fiscal Year 1982 Allocation
Section 504 Very Low-Income Housing Grants

The following method was used to allocate Section 504 grant funds to states. The necessity for making certain assumptions combined with factual data is essential in utilizing a mathematical approach for distribution of funds. Selected factual data and assumptions were made to provide the best distribution of limited resources on a reasonably equitable basis. Lack of data and need for providing a minimum program level required some administrative adjustments.

I. Amount Available for Allocation

Distributed by	Very Low-Income Housing Grants
(a) Formula	$14,497.0
(b) Base Amount	00.0
(c) Reserve	$ 503.0
Total	$15,000.0

II. Basic Formula Criteria, Data Sources and Weight

The selected criteria identify essential elements that are necessary to compare the need of the various states for rural housing in order to make the best use of available program funds. The data source as indicated for each criterion used is the best and latest available data. The weight expressed in percentage is the relative value to the importance of the selected criteria. The weight assigned each criterion is constant for all states.

Criteria and Data Sources	WEIGHT LOW INCOME
A. State's percentage of the national rural population living in dwellings which lack complete plumbing and/or are crowded (i.e. substandard). (Rural Housing Survey-1977)	33
B. State's percentage of rural population below the poverty level. (Rural Housing Survey-1977)	33
C. State's percentage of national population 62 years of age and over. (Rural Housing Survey-1977	33

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III. Basic Formula stated as used to make computations.

Step 1. Aa+Bb+Cc = State Factor

A, B, and C represent the selected criteria expressed as the state's percentage of the U.S. total.

AND

a, b, and c, represent the weight, expressed as a percentage, given the selected criteria.

Example of Basic Formula

	A	a	B	b	C	c	
Alabama	.037418	(33) +	.035967	(33) +	.025909	(33) =	.032767-State Factor

The state factor determines the state's percentage of funds.

Step 2. The state's factor times the amount of funds to be allocated by formula is the state's allocation.

Example of Allocated Funds

Alabama-$14,500,000	x	.032767	=	$475,1215	
(Allocated Funds)		Factor		Alabama allocation	

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UNITED STATES DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION
WASHINGTON, D.C. 20250

SUBJECT: Allocation Computations
PROGRAM: 504 RH Grants
FISCAL YEAR: 1982

	A	B	C	D	E	F	G	H
STATE	FACTOR %	BASIC FORMULA ALLOCATION (THOUSANDS)	DELINQUENCY ADJUSTMENT FACTOR	DELINQUENCY ADJUSTMENT AMOUNT (THOUSANDS)	FORMULA ALLOCATION B-D=E (THOUSANDS)	ADMIN. ALLOCATION (THOUSANDS)	BASE ALLOCATION (THOUSANDS)	TOTAL ALLOCATION E+F+G=H (THOUSANDS)
AL	3.2767	475.1215	.0	0.0000	475.1215		0.0	475
AK	.2576	37.3520	.0	0.0000	37.3520		0.0	37
AZ	.8486	123.0470	.0	0.0000	123.0470		0.0	123
AR	2.4556	356.0620	.0	0.0000	356.0620		0.0	356
CA	3.1112	451.1240	.0	0.0000	451.1240		0.0	451
CO	.7364	106.7780	.0	0.0000	106.7780		0.0	107
CT	.5892	85.4340	.0	0.0000	85.4340		0.0	85
DE	.1941	28.1445	.0	0.0000	28.1445		0.0	28
FL	3.1541	457.3445	.0	0.0000	457.3445		0.0	457
GA	4.3824	635.4480	.0	0.0000	635.4480		0.0	635
HI*	.3430	49.7350	.0	0.0000	49.7350		0.0	50
ID	.5376	77.9520	.0	0.0000	77.9520		0.0	78
IL	2.7537	399.2865	.0	0.0000	399.2865		0.0	399
IN	2.3773	344.7085	.0	0.0000	344.7085		0.0	345
IA	1.8497	268.2065	.0	0.0000	268.2065		0.0	268
KS	1.2425	180.1625	.0	0.0000	180.1625		0.0	180
KY	3.8842	563.2090	.0	0.0000	563.2090		0.0	563
LA	3.1133	451.4285	.0	0.0000	451.4285		0.0	451
ME	.9705	140.7225	.0	0.0000	140.7225		0.0	141
MD	1.1173	162.0085	.0	0.0000	162.0085		0.0	162
MA	.8446	122.4670	.0	0.0000	122.4670		0.0	122
MI	2.8817	417.8465	.0	0.0000	417.8465		0.0	418
MN	2.1512	311.9240	.0	0.0000	311.9240		0.0	312
MS	3.3876	491.2020	.0	0.0000	491.2020		0.0	491
MO	3.0354	440.1330	.0	0.0000	440.1330		0.0	440
MT	.5871	85.1295	.0	0.0000	85.1295		0.0	85
NE	.9376	135.9520	.0	0.0000	135.9520		0.0	136
NV	.1346	19.5170	.0	0.0000	19.5170		0.0	20
NH	.4516	65.4820	.0	0.0000	65.4820		0.0	65
NJ	.8930	129.4850	.0	0.0000	129.4850		0.0	129
NM	.4188	60.7260	.0	0.0000	60.7260		0.0	61

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UNITED STATES DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION
WASHINGTON, D.C. 20250

SUBJECT: Allocation Computations
PROGRAM: 504 RH Grants
FISCAL YEAR: 1982

	A	B	C	D	E	F	G	H
STATE	FACTOR %	BASIC FORMULA ALLOCATION (THOUSANDS)	DELINQUENCY ADJUSTMENT FACTOR	DELINQUENCY ADJUSTMENT AMOUNT (THOUSANDS)	FORMULA ALLOCATION B-D=E (THOUSANDS)	ADMIN. ALLOCATION (THOUSANDS)	BASE ALLOCATION (THOUSANDS)	TOTAL ALLOCATION E+F+G=H (THOUSANDS)
NY	2.8453	412.5685	.0	0.0000	412.5685		0.0	413
NC	5.1057	740.3265	.0	0.0000	740.3265		0.0	740
ND	.5823	84.4335	.0	0.0000	84.4335		0.0	84
OH	3.3943	492.1735	.0	0.0000	492.1735		0.0	492
OK	1.8142	263.0590	.0	0.0000	263.0590		0.0	263
OR	1.0055	145.7975	.0	0.0000	145.7975		0.0	146
PA	4.4441	644.3945	.0	0.0000	644.3945		0.0	644
RI	.1207	17.5015	.0	0.0000	17.5015		0.0	18
SC	2.9021	420.8045	.0	0.0000	420.8045		0.0	421
SD	.6948	100.7460	.0	0.0000	100.7460		0.0	101
TN	3.3375	483.9375	.0	0.0000	483.9375		0.0	484
TX	5.6522	819.5690	.0	0.0000	819.5690		0.0	820
UT	.3196	46.3420	.0	0.0000	46.3420		0.0	46
VT	.4642	67.3090	.0	0.0000	67.3090		0.0	67
VA	2.8347	411.0315	.0	0.0000	411.0315		0.0	411
WA	1.0563	153.1635	.0	0.0000	153.1635		0.0	153
WV	2.0271	293.9295	.0	0.0000	293.9295		0.0	294
WI	2.2538	326.8010	.0	0.0000	326.8010		0.0	327
WY	.2345	34.0025	.0	0.0000	34.0025		0.0	34
PR	5.1662	749.0990	.0	0.0000	749.0990		0.0	749
VI	.1221	17.7045	.0	0.0000	17.7045		0.0	18
GPT**	.7046	102.1670	.0	0.0000	102.1670		0.0	102
FMHA ST.TOTALS		14,500.0000		0.0	14,500.0000	0.0	0.0	14,497
NATIONAL OFFICE		0.0	0.0	0.0	0.0	0.0	0.0	0
FINANCE OFFICE		0.0	0.0	0.0	0.0	0.0	0.0	0
RESERVE		0.0	0.0	0.0	0.0	0.0	0.0	503
FMHA TOTALS		14,500.0000		0.0	14,500.0000	0.0	0.0	15,000

(END OF INSERT)

* Includes American Samoa
**Includes Guam, Commonwealth of the Northern Marianas and Trust Territory of the Pacific Islands.

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Mr. WATKINS. I will work with the staff here. Let me look at some insured mortgage-type approach. I think also you should look at the restoration of the guaranteed money in those counties that do not have savings and loans, and some other options for some financing. I would like to request, and hope the staff and the committee would be requiring, the Farmers Home Administration to develop not a conditional commitment, but a commitment that can be granted to builders so they know they have a commitment they can live with.

I think that is something that could be done. Our city cousins were able to do it in HUD, in the Federal Housing Administration in the larger cities. I think we should be able to try to come up with—and I think we have got enough ingenuity in rural America and the Farmers Home Administration to come up with—some type of plan to help us do that.

I would also like to encourage—I know we have talked about 515, as has my friend, Mr. Lundine, from New York—I think we should have enough ingenuity to develop what we could call an "elderly condominium program" where we could have a recapture clause in that phase of the subsidy. There might be an option developed for that, because some rural people live out in the country, they sell, and they want to live in a small community in a tri-plex, quad-plex, whatever. I think an approach like that would fulfill a tremendous need, and yet we have a recapture clause also which would benefit Farmers Home Administration.

You mentioned the backlog. I might say, Mr. Chairman, one of the things you would be interested in—my Farm Home folks brag, and I am proud of them in Oklahoma, they say they have not lost a dollar on a Farm Home house in Oklahoma. Why? Because anyone who moves out and leaves a house because of lack of payment or something, they have the prospects, the backlog, right there, and they just pay up the difference and move up and pick up the payments, or whatever, the repairs or whatever. They pay it.

I think it is a beautiful situation and I think that we should not worry as much about some of those figures because I think we have all the potential buyers right there in your portfolio in those counties who are ready to buy those houses. We need to move forward with that particular kind of program.

I have other questions and comments, but I just want to say, Mr. Chairman, I appreciate you and the members of this committee allowing me to come and visit a little bit on some questions because I like for the Farmers Home Administration to be the "active home delivery system" in rural America. I am afraid if we cannot meet that need—for basic shelter in rural America—that we are going to have to come up with a different type of delivery system somewhere along the way, and I think it would be less fortunate because I think they do a good job. They have limited personnel and a lot of problems. I think if we could all just work together, we could salvage it and make it a lot stronger.

Thank you.

Chairman GONZALEZ. Certainly if the gentleman desires, he may submit his additional questions to Mr. Shuman.

Thank you again.

We have got to get moving. Thank you, Mr. Shuman.

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Let me say just one final thing. The most inspiring thing that I have seen was on the trip to California where we went into several areas in which the self-help housing program has been so successful, the only ones I know in the whole United States of America that are building their own homes. Were it not for section 523 grants, if it were not for this, if there was such a thing, sweat capital would not be possible.

I am distressed to hear you say that you can rely on the pool because we have the evidence there that if you do, it will be at a much higher cost than if you can have the mechanism of the section 523 program, technical assistance and the like.

It was very inspiring to see young couples building their own, doing their own work, but the sweat capital made it possible for them to have a home. So I am really hoping that you will have an opportunity to reexamine that program and see if we could get it a little more help rather than eliminate.

Mr. LUNDINE. Would the chairman yield?

Chairman GONZALEZ. Certainly.

Mr. LUNDINE. I do not want to drag this out unnecessarily, but I had the opportunity to meet with some rural housing folks, Indian housing and other housing people from all over the country when they were in here for some meeting. I saw some of the most moving and tragic circumstances portrayed from the State of Washington, from rural Iowa, North Dakota, as well as the kind of places my colleague from Oklahoma and I from the East talk about.

Several of these groups told us about how the only thing that they could really get going in terms of homeownership was this self-help idea. They told us how they had projects that they were beginning, and they had one case, a number of a whole bunch of unemployed construction people who were unemployed, whose unemployment had run out. It was a real moving story.

So I would like to second what you say based on an impression that I think is reasonably accurate. It comes from across the United States, not just from my own area.

Having said that, I would also like to ask permission, because I know the time of the subcommittee is very limited, if I could ask a couple of additional questions.

Chairman GONZALEZ. Yes, certainly.

Without objection, so ordered.

[The following written questions were submitted by Congressman Lundine and appear with the responses of Mr. Shuman:]

Question 1. If, as we have seen firsthand, migrant farmworkers are the poorest of the poor, the worst housed and, yet, a crucial element in several highly productive agricultural sectors, why are you not supporting the modest levels of assistance proposed in H.R. 5731?

Answer. The authorization of $19 million requested for farm labor housing loans is estimated to be sufficient for projects actually developed through eligible public agencies, associations and farm operators. The actual use of loan funds in fiscal year 1981 totaled $18,548,000. Indications are that development of projects this fiscal year, and next fiscal year, will proceed at about the same rate, and that $19 million is an ample provision for this program in fiscal year 1983. The requested grant authority for fiscal year 1983 is $23,228,000, as compared to $10,518,000 actually committed in fiscal year 1981 and $22 million appropriated for fiscal year 1982.

Question 2. Are the facts concerning the savings achieved and the high degree of success of the section 523 mutual and self-help housing programs incorrect? I ask

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this because in the Department's budget submissions which would eliminate this program, it is suggested that the program is not successful.

Is not the $6,000 per unit cost of technical assistance effective in reducing section 502 loans by $10,000 to $12,000 and therein saving a proportional amount of interest credit subsidy?

Answer. In the section 502 program of homeownership loans to low-income families, only 1.67 percent of borrowers in fiscal year 1981 were families willing and able to avail themselves of the self-help plan for new home construction. Budget reductions in the section 502 program will have a diminishing affect on the use of this program and the supporting activity of technical advisory organizations which have been assisted with Self-Help Housing Technical Assistance grants.

FmHA staff resources needed to successfully administer self-help housing technical assistance grants are substantial and compete directly with staff resources needed to meet our housing loan servicing priorities. These priorities are directed primarily toward improving the success of loans in the section 502 portfolio and reducing the level and consequences of loan delinquency.

For these reasons, the self-help housing technical assistance program has been omitted from program activities contemplated in the budget as submitted for fiscal year 1981.

Chairman GONZALEZ. I talked to some of the people, went into some of the completed homes, and some that had been completed and occupied. It was very moving. I think it should have been a testimonial to the fact that these programs can be worked and administrated properly.

So I am asking for some reconsideration.

Thank you very much for your time and your contribution to the hearing.

Mr. SHUMAN. Thank you very much, Mr. Chairman.

Chairman GONZALEZ. We imposed on our colleague from Ohio, Mr. Wylie, to remain for one purpose, which is to give him the privilege of introducing our next witness, the Honorable Jeffrey Bragg, the Administrator of the Federal Insurance Administration, and with him are Mr. Lee Thomas, Associate Director of State and Local Programs and Support, Federal Emergency Management Agency.

Mr. WYLIE. Thank you very much, Mr. Chairman.

I do indeed appreciate the opportunity to recognize my distinguished constituent, and he still is a constituent, Mr. Jeffrey Bragg. After I learned of his interest in being the Federal Insurance Administrator, I did indeed go to bat for him because I knew that he would make an excellent Administrator. He was supported by the entire insurance industry in the State, I will say, and the entire community.

Jeff, you have almost literally been baptized in a not too pleasant way with all of the floods in Ohio and Indiana.

Mr. BRAGG. Yes, sir.

Mr. WYLIE. Sorry about that, that you had to come on board in those adverse circumstances, but I understand that this is your very first experience before a congressional subcommittee or committee?

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Mr. BRAGG. Yes, sir.

Mr. WYLIE. We hope your baptism here will be more pleasant and one you will remember with fondness.

With that, Mr. Chairman, I will present to you Mr. Jeffrey Bragg.

Chairman GONZALEZ. Thank you very much.

Welcome, Mr. Bragg, and thank you for your time and your willingness to appear.

You may proceed, if you wish, perhaps by summarizing your statement. If you do, we can offer the full text of your prepared statement for the record.

STATEMENT OF HON. JEFFREY S. BRAGG, ADMINISTRATOR, FEDERAL INSURANCE ADMINISTRATION, FEDERAL EMERGENCY MANAGEMENT AGENCY, ACCOMPANIED BY SALLY CLARY, FINANCIAL OFFICER, FEDERAL INSURANCE ADMINISTRATION

Mr. BRAGG. Thank you, Mr. Chairman.

I will summarize my statement.

I have with me Sally Clary, who is the Federal Insurance Administration's financial officer, and she will be assisting me throughout this hearing.

The Federal Insurance Administration is responsible for administering three of this country's insurance programs: the flood insurance program, and the crime insurance program, the riot reinsurance program. The availability of flood insurance in a community is dependent on the community's adopting and enforcing flood plain management measures.

The responsibility within FEMA for administering the flood plain management aspects of the program is assigned to the Office of State and Local Programs and Support. The Director of this office, Mr. Thomas, is here with us today and will testify on those aspects of the program when I conclude.

By far the largest program in the Federal Insurance Administration is the flood insurance program. We have nearly 2 million policyholders, nearly $100 billion in coverage, and we sell insurance in 17,000 participating communities throughout the country.

It is our recommendation that this program be continued and that it be continued for a period of 2 years so that we can add continuity to the program.

Our second program is the Federal riot reinsurance program. This program offers reinsurance to companies who themselves provide insurance against riots and civil commotions. There are now 98 private property insurance companies participating in this program. This is a reduction from 300 insurance companies participating in the same program last year.

We believe there is a viable insurance market providing riot reinsurance to companies. Because of the reduction in the number of companies participating in the program—and by the way, Mr. Chairman, that reduction has been evident since the beginning of the program—we are recommending that that program be terminated and that the companies currently purchasing from the Federal Government be permitted to purchase their reinsurance from the private market that is now available.

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Our third program, the Federal crime insurance program, provides burglary and robbery insurance to approximately 70,000 policyholders. In 1970 the Federal Insurance Administration conducted a study of crime insurance availability and concluded that there was a critical availability problem in the area of crime insurance.

Despite this problem, however, after nearly 10 years of the program and heavily subsidized rates, we still only have 70,000 policyholders. Seventy-seven percent of these policy holders are residents of only four States. We believe that the crime insurance program is not of national proportions, demonstrated by the fact that there is such a limited policy base.

We have paid out in claims nearly $3 for every $1 we have collected in premiums. Last year we lost $25 million on this program, and we encourage the committee to adopt this recommendation that this program be terminated as well.

We note for the committee that there are programs within States that can be utilized in order to meet the existing need for crime insurance.

Mr. Chairman, I will allow this to conclude my summary of the testimony that I have submitted for the record and ask that we turn it over to Mr. Thomas, who will now address the issues of flood plain management.

[Mr. Bragg's prepared statement follows:]

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STATEMENT BY JEFFREY S. BRAGG
ADMINISTRATOR
FEDERAL INSURANCE ADMINISTRATION
FEDERAL EMERGENCY MANAGEMENT AGENCY
BEFORE THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
MARCH 25, 1982

I AM JEFFREY S. BRAGG, ADMINISTRATOR OF THE FEDERAL INSURANCE ADMINISTRATION (FIA), WHICH IS ONE COMPONENT OF THE FEDERAL EMERGENCY MANAGEMENT AGENCY. I AM HERE BEFORE THE COMMITTEE TODAY TO ADDRESS THE THREE INSURANCE PROGRAMS OF THE FEDERAL INSURANCE ADMINISTRATION; NAMELY, THE NATIONAL FLOOD INSURANCE PROGRAM, THE FEDERAL RIOT REINSURANCE PROGRAM, AND THE FEDERAL CRIME INSURANCE PROGRAM, ALL THREE OF WHICH RESPOND TO LOSSES RESULTING FROM NATURAL AND MANMADE OCCURRENCES. THE THREE PROGRAMS PROVIDE DIRECT BENEFITS AND RELIEF TO THOSE WHO HAVE ANTICIPATED THE POSSIBILITY OF THEIR LOSS BY PURCHASING POLICIES OF INSURANCE.

THE LARGEST OF THE THREE PROGRAMS IS THE NATIONAL FLOOD INSURANCE PROGRAM WHICH HAS NEARLY 2,000,000 POLICIES IN FORCE PROTECTING DWELLINGS AND/OR CONTENTS FROM LOSS BY FLOOD. THE AVAILABILITY OF FLOOD INSURANCE IN A COMMUNITY IS DEPENDENT UPON THE COMMUNITY'S ADOPTING AND ENFORCING FLOOD PLAIN MANAGEMENT MEASURES. THE RESPONSIBILITY WITHIN FEMA FOR ADMINISTERING THE FLOOD PLAIN MANAGEMENT ASPECTS OF THE PROGRAM IS ASSIGNED TO THE OFFICE OF STATE AND LOCAL PROGRAMS AND SUPPORT. THE DIRECTOR OF THIS OFFICE, MR. LEE M. THOMAS, IS HERE TODAY AND WILL TESTIFY ON THOSE ASPECTS OF THE PROGRAM FOLLOWING MY TESTIMONY. INDIVIDUAL AVAILABILITY OF INSURANCE IS CONDITIONAL UPON THE INSURED RESIDING OR DOING BUSINESS WITHIN ONE OF THE 17,157 COMMUNITIES PARTICIPATING IN THE PROGRAM AS OF JANUARY 31, 1982.

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OF THESE COMMUNITIES, 9,893 ARE IN THE EMERGENCY PROGRAM, WHICH REQUIRES A LESSER DEGREE OF FLOOD PLAIN MANAGEMENT MEASURES BY THE COMMUNITY, AND 7,264 ARE IN THE REGULAR PROGRAM WHICH REQUIRES MORE EXTENSIVE FLOOD PLAIN MANAGEMENT MEASURES IN ACCORDANCE WITH IDENTIFIED BASE FLOOD ELEVATIONS IN THE AREAS OF SPECIAL FLOOD HAZARD. INSURANCE COVERAGE IN FORCE NATIONWIDE AMOUNTS TO APPROXIMATELY ONE HUNDRED BILLION DOLLARS.

THE FEDERAL RIOT REINSURANCE PROGRAM PROVIDES REINSURANCE AGAINST THE PERIL OF RIOT AND CIVIL COMMOTION TO 98 PRIVATE PROPERTY INSURANCE COMPANIES IN NINETEEN STATES, A SUBSTANTIAL DECLINE FROM 300 COMPANIES INSURED IN THE 1980-1981 CONTRACT YEAR. THIRTY-FIVE BILLION DOLLARS OF FEDERAL RIOT REINSURANCE IS IN FORCE.

THE FEDERAL CRIME INSURANCE PROGRAM PROVIDES BURGLARY AND ROBBERY INSURANCE TO APPROXIMATELY 71,000 RESIDENTS AND BUSINESSES IN 27 STATES AND THE DISTRICT OF COLUMBIA, PUERTO RICO AND THE VIRGIN ISLANDS, A DECLINE OF APPROXIMATELY 10,000 FROM THE PREVIOUS YEAR. ELIGIBILITY FOR BURGLARY INSURANCE COVERAGE IS CONDITIONED UPON THE INSURED'S COMPLIANCE WITH PROTECTIVE REQUIREMENTS DESIGNED TO DETER CRIME LOSSES. THERE ARE APPROXIMATELY 50,000 RESIDENTIAL AND 21,000 COMMERCIAL POLICIES IN FORCE AND INSURANCE IN FORCE TOTALS $576,556,000.

BECAUSE FEMA'S AUTHORITY TO WRITE NEW INSURANCE POLICIES UNDER THESE PROGRAMS EXPIRES ON SEPTEMBER 30, 1982, CONGRESS IS FACED WITH THE QUESTION OF WHETHER TO EXTEND THIS AUTHORITY. THIS ADMINISTRATION RECOMMENDS THAT THE CURRENT STATUTORY AUTHORITY FOR THE FEDERAL RIOT REINSURANCE PROGRAM AND THE FEDERAL CRIME INSURANCE PROGRAM BE PERMITTED TO EXPIRE AND THAT THE RUNOFF OF THE BUSINESS ON EXISTING POLICIES BE ADMINISTERED UNDER THE PROVISIONS OF THE CURRENT STATUTE WHICH REQUIRE NO CHANGE.

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THE FEDERAL RIOT REINSURANCE PROGRAM HAS, FORTUNATELY, FOR THE SAKE OF THE NATION, NOT BEEN FACED WITH PROPERTY LOSSES OF THE MAGNITUDE WHICH WERE SUFFERED BY THE PRIVATE INSURANCE MARKET DURING THE 1960'S. SINCE THE PROGRAM WAS DESIGNED TO BE SELF-SUPPORTING, PREMIUMS HAVE ALWAYS EXCEEDED LOSSES. TO REBUILD THE NATIONAL INSURANCE DEVELOPMENT FUND, WHICH HAS BEEN SO DEPLETED BY THE FEDERAL CRIME INSURANCE PROGRAM, RIOT REINSURANCE PREMIUMS WERE INCREASED FOR THE 1981-1982 CONTRACT YEAR. THE REPEAL BY THE CONGRESS IN 1981 OF PORTIONS OF SECTION 307 OF THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1978 HAS RESULTED IN AN INCREASE BY THREE STATES IN THE NUMBER OF STATES IN WHICH THE REINSURANCE IS OFFERED.

WHILE A MAJOR REASON CITED FOR THE DECLINE IN THE NUMBER OF COMPANIES PURCHASING FEDERAL RIOT REINSURANCE WAS OUR INCREASE IN THE PREMIUM RATE FOR THE CONTRACT YEAR 1981-1982, WE NEVERTHELESS FEEL THAT THIS INCREASE DOES NOT CONTROVERT EVIDENCE THAT ALTERNATIVE REINSURANCE COVERAGE IS BEING FOUND READILY AVAILABLE IN THE PRIVATE SECTOR. IN VIEW OF THE DIMINISHING NEED FOR FEDERAL RIOT REINSURANCE, WE RECOMMEND THAT IT NOT BE EXTENDED BEYOND SEPTEMBER 1982.

THE FEDERAL CRIME INSURANCE PROGRAM WAS LEGISLATED BY CONGRESS AFTER A STUDY MADE BY THE FEDERAL INSURANCE ADMINISTRATION IN 1970 INDICATED THAT AVAILABILITY AND/OR AFFORDABILITY PROBLEMS EXISTED IN MAJOR URBAN AREAS. THIS PROGRAM, WHICH IN 1970 WAS GRAFTED ONTO THE 1968 LEGISLATION AUTHORIZING THE FEDERAL RIOT REINSURANCE PROGRAM, HAS BEEN FINANCED THROUGH THE NATIONAL INSURANCE DEVELOPMENT FUND INTO WHICH THE PREMIUMS FROM BOTH FEDERAL RIOT REINSURANCE AND CRIME INSURANCE ARE DEPOSITED. OVER THE NEARLY ELEVEN YEARS IN WHICH THE FEDERAL CRIME INSURANCE PROGRAM HAS BEEN IN OPERATION, IT HAS PAID OUT IN CLAIMS ROUGHLY $3 FOR EVERY $1 OF PREMIUM, AND

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WHILE MAKING AFFORDABLE CRIME INSURANCE AVAILABLE AS INTENDED BY THE CONGRESS, IT HAS CONSUMED NEARLY $138,000,000 OF THE NATIONAL INSURANCE DEVELOPMENT FUND. THAT FUND HAS BEEN BUILT UP THROUGH THE RECEIPT OF FEDERAL RIOT REINSURANCE PREMIUMS WHICH HAVE GREATLY EXCEEDED THE AMOUNTS OF CLAIMS PAYABLE UNDER THAT PROGRAM. NO FUNDS HAVE EVER BEEN APPROPRIATED FOR THE FEDERAL CRIME INSURANCE PROGRAM AND AT THE RATIO OF CLAIMS CURRENTLY ANTICIPATED UNDER THE FEDERAL CRIME INSURANCE PROGRAM, THE PROGRAM IS BEING CONTINUED BY CALLING UPON THE PROGRAM'S BORROWING AUTHORITY. GIVEN THE RELATIVELY SMALL NUMBER OF INSUREDS IN THE PROGRAM, APPROXIMATELY 75% OF WHOM RESIDE IN THE STATES OF FLORIDA, PENNSYLVANIA, MASSACHUSETTS, AND NEW YORK, AND THE LACK OF RESPONSE TO PUBLIC AWARENESS EFFORTS, WE BELIEVE THAT THE AUTHORITY FOR THE WRITING OF NEW POLICIES UNDER THIS PROGRAM, WHICH EXPIRES ON SEPTEMBER 30, 1982, SHOULD BE PERMITTED TO EXPIRE. FIA STRONGLY BELIEVES THAT THE AVAILABILITY PROBLEMS OF RELATIVELY SMALL NUMBER OF INSURFDS WHO HAVE FELT A NEED FOR THIS PROGRAM COULD BE ADDRESSED AT THE STATE LEVEL.

THE NATIONAL FLOOD INSURANCE PROGRAM IS BY FAR THE LARGEST OF THE FIA PROGRAMS AND, IN TERMS OF ITS CONTRIBUTION TO THE GOAL OF FLOOD PLAIN MANAGEMENT AND LONG TERM HAZARD REDUCTION, WE BELIEVF THAT ITS CONTINUATION IS CLEARLY IN THE INTERESTS OF THE GOVERNMENT AND THAT ITS AUTHORITY SHOULD BE EXTENDED BEYOND THE SEPTEMBER 30, 1982 EXPIRATION DATE WHICH ALL THREE PROGRAMS FACE. IN ORDER TO ASSURE BETTER PROGRAM CONTINUITY, WE RECOMMEND A 2-YEAR RATHER THAN A 1-YEAR EXTENSION OF THE NFIP. MANY STEPS HAVE BEEN TAKEN TO IMPROVE THE EFFICIENCY OF THIS OPERATION WITH A MORE ACTUARIALLY BASED PREMIUM RATE SCHEDULE, TIGHTER CLAIMS PRACTICES AND IMPROVED OVERALL MONITORING OF THE GROWING PROGRAM. WE HAVE TAKEN STEPS TO REFLECT WAVE HEIGHT IN OUR PREMIUMS ON NEW CONSTRUCTION IN COASTAL HIGH HAZARD V-ZONES.

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On January 1, 1981, rate increases averaging 61% were applied to the actuarial rates charged in the Regular Program and the addition of a $20 Expense Constant to the subsidized rates charged in the Regular and Emergency Program resulted in premium increases averaging 22%. Moreover, a $50 minimum premium was established which encourages the purchase of three year policies to which only one Expense Constant charge is applied. On October 1, 1981, the subsidized rates were increased for the first time since the beginning of the program by an average of 47%. With these rate increases, and increases planned for the future, we are moving toward a goal of bringing the program to an actuarially sound basis by 1988. The FIA is anxious to encourage greater private insurance industry participation in the Flood Insurance Program and looks forward to initiating discussions which would lead to steps which could eventually involve the insurance industry in administering some aspects of the NFIP.

This concludes my prepared statement. Mr. Thomas will now address the flood plain management aspects of the National Flood Insurance Program. After completion of his testimony, we will be happy to respond to any questions the Committee may have on our respective areas of responsibility.

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Chairman GONZALEZ. Mr. Thomas.

STATEMENT OF LEE M. THOMAS, ASSOCIATE DIRECTOR, STATE AND LOCAL PROGRAMS AND SUPPORT, FEDERAL EMERGENCY MANAGEMENT AGENCY

Mr. THOMAS. I have also submitted and would appreciate having included in the record formal testimony, and I would like to highlight those remarks for you.

Chairman GONZALEZ. Without objection, so ordered.

Mr. THOMAS. As Mr. Bragg indicated, the Office of State and Local Programs and Support is responsible for the flood plain management portions of the national flood insurance program. That organizational structure has allowed us to place increased emphasis on flood plain management and integrate that into an overall natural hazards program within the Federal Emergency Management Agency.

Within that organization, for instance, I am also responsible for the Disaster Relief Act and see on a day-to-day basis the impact of flooding and the tragedy associated with flooding throughout this country. It makes you realize the true implications and the priority that needs to be established as far as proper flood plain management is concerned throughout our Nation.

Specifically, our directorate is responsible for carrying out four basic objectives under the national flood insurance program: First, the identification and study of flood risk areas throughout the country; second, the establishment and maintenance of minimum standards for flood plain management; third, the acquisition of severely or repeatedly damaged flood properties; and finally, providing assistance, financial and technical, to States and communities to help them develop their capabilities and capacity to manage the flood plains.

In each of these areas we have a number of activities under way, activities authorized by the act, activities that are funded with appropriations provided by Congress. We are working with over 20,000 communities throughout the country and have identified them as flood-prone communities with specific flood hazards.

In over 17,000 communities we have active participation in our program. Nearly half of those communities are in the regular program, with the remaining communities in our emergency program. The communities in the regular program account for over 80 percent of the individuals who live in flood-prone areas of this country.

We do have a specific problem relating to the mandate of Congress to complete the specific flood risk studies. We have proposed language for reauthorization of this bill that would allow us to complete the flood risk studies by 1987 as opposed to 1983. We find it will be impossible to complete the studies in all the communities by next year and feel that we can, with sufficient appropriations, complete those studies by 1987, which would allow us then to complete our major objective, which was to do detailed flood risk studies in each of the flood-prone communities throughout the country.

As far as the maintenance of standards for flood plain management, we have been working closely with State and local agencies

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and communities in reviewing those standards and insuring that they are consistent with the proper flood plain management.

In the activities that we have to provide technical assistance to State agencies, we have established that, as has Congress, as a major priority under the national flood insurance program to work closely with States to try to develop their capability and capacity to manage their flood plains. We feel that this is a major effort that we should continue. We find quite an interest on the part of State government to expand their capability in flood plain management. We are pursuing that actively.

Finally, our 1362 program, or the program for repeatedly flooded properties, we have found over the last 2 years since it was authorized to be as cost effective as we had anticipated it would be. We have purchased over 163 structures during the last 2 years at a total cost of $9 million. As I indicated, we find it is a cost-effective program and we are asking that its authorization be continued.

I think this is a brief overview of the programs that relate to flood plain management, obviously a major component and the major intent of Congress under the national insurance flood program. As Mr. Bragg indicated, we will be glad to answer any questions the committee may have.

[Mr. Thomas' prepared statement, on behalf of the Federal Emergency Management Agency, and a letter from FEMA General Counsel George Jett, dated February 23, 1982, with enclosed proposed legislation to extend the national flood insurance program, follow:]

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STATEMENT BY LEE M. THOMAS
ASSOCIATE DIRECTOR
STATE AND LOCAL PROGRAMS AND SUPPORT
FEDERAL EMERGENCY MANAGEMENT AGENCY
BEFORE THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
COMMITTE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
MARCH 25, 1982

THE NATIONAL FLOOD INSURANCE PROGRAM IS ADMINISTERED BY TWO ORGANIZATIONAL ENTITIES WITHIN THE FEDERAL EMERGENCY MANAGEMENT AGENCY: THE OFFICE OF STATE AND LOCAL PROGRAMS AND SUPPORT, WHICH I HEAD AS ASSOCIATE DIRECTOR; AND, THE FEDERAL INSURANCE ADMINISTRATION. MY OFFICE IS RESPONSIBLE FOR THE FLOOD HAZARD MITIGATION ACTIVITIES OF THE PROGRAM, WHICH I WILL ADDRESS IN MY PRESENTATION TO YOU TODAY. THE FEDERAL INSURANCE ADMINISTRATION IS RESPONSIBLE FOR THE INSURANCE ASPECTS OF THE PROGRAM WHICH HAVE BEEN DESCRIBED TO YOU BY MR. JEFFREY S. BRAGG, THE FEDERAL INSURANCE ADMINISTRATOR.

I WOULD LIKE FIRST TO PROVIDE YOU WITH A BRIEF DESCRIPTION OF THE NATIONAL FLOOD INSURANCE PROGRAM AND ITS GOALS AND THEN I WILL EXPLAIN HOW THE FLOOD HAZARD MITIGATION ACTIVITIES CARRIED OUT BY FEMA AID IN ACHIEVING THOSE GOALS.

THE NATIONAL FLOOD INSURANCE PROGRAM (NFIP) IS A SELF-HELP PROGRAM DESIGNED TO REDUCE THE HIGH COSTS OF FLOOD DISASTER ASSISTANCE. ESTABLISHED BY CONGRESS IN 1968 UNDER THE NATIONAL FLOOD INSURANCE ACT, THE PROGRAM WAS ORIGINALLY ADMINISTERED BY THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT. BROADENED AND MODIFIED SINCE THEN, IT IS NOW ADMINISTERED BY THE FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA), WITH FUNCTIONAL RESPONSIBILITIES DELEGATED WITHIN FEMA AS I HAVE DESCRIBED TO YOU.

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CONGRESS CREATED THE PROGRAM TO ADDRESS THE PROBLEM OF INCREASING ANNUAL FLOOD LOSSES. FOR DECADES THE NATIONAL RESPONSE TO FLOOD DISASTERS WAS GENERALLY LIMITED TO BUILDING FLOOD CONTROL WORKS (DAMS, LEVEES, SEAWALLS, ETC.) AND PROVIDING DISASTER RELIEF TO FLOOD VICTIMS. TO COMPOUND THE PROBLEM, THE PUBLIC COULD NOT BUY FLOOD COVERAGE FROM INSURANCE COMPANIES, AND BUILDING TECHNIQUES TO REDUCE FLOOD DAMAGE TO NEW CONSTRUCTION WERE OFTEN OVERLOOKED. IN THE FACE OF MOUNTING ANNUAL FLOOD LOSSES, CONGRESS CREATED THE PROGRAM TO MITIGATE FUTURE DAMAGE AND PROVIDE INSURANCE AGAINST PROPERTY LOSSES WHICH DO OCCUR.

THE PROGRAM WORKS ON THE BASIS OF AN AGREEMENT BETWEEN THE FEDERAL GOVERNMENT AND THOSE FLOOD-PRONE COMMUNITIES THAT CHOOSE TO PARTICIPATE IN THE PROGRAM. THE COMMUNITY AGREES TO ADOPT AND ENFORCE THE MINIMUM STANDARDS REQUIRED BY FEMA FOR MITIGATION OF FLOOD LOSSES. THE DETAIL OF FLOOD RISK INFORMATION PUBLISHED BY FEMA DETERMINES THE EXTENT OF REGULATION BY A COMMUNITY OF ITS FLOOD HAZARDS. IN RETURN FOR COMMUNITY FLOOD PLAIN MANAGEMENT, THE FEDERAL GOVERNMENT AGREES TO MAKE FLOOD INSURANCE AVAILABLE TO INDIVIDUAL PROPERTY OWNERS AS A FINANCIAL PROTECTION AGAINST FLOOD DAMAGE.

THE PROGRAM MUST HAVE COMMUNITY PARTICIPATION TO WORK. WITHOUT COMMUNITY OVERSIGHT OF BUILDING ACTIVITIES IN THE FLOOD PLAINS, THE BEST EFFORTS OF SOME TO REDUCE FLOOD LOSSES COULD BE UNDERMINED OR DESTROYED BY THE CARELESS BUILDING OF OTHERS. UNLESS THE COMMUNITY AS A WHOLE PRACTICES ADEQUATE FLOOD HAZARD MITIGATION, THE POTENTIAL FOR LOSS CANNOT BE LOWERED SUFFICIENTLY TO REDUCE DISASTER ASSISTANCE COSTS. THE INSURANCE RATES FOR NEW CONSTRUCTION IN A COMMUNITY DEPEND ON HOW SAFE THE STRUCTURE IS FROM THE ESTIMATED FLOOD RISK.

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THIS AGREEMENT BY PARTICIPATING COMMUNITIES TO PRACTICE ADEQUATE FLOOD PLAIN MANAGEMENT TO MITIGATE FUTURE LOSSES IS THE CORNERSTONE TO THE PROGRAM. CONGRESS DID NOT INTEND TO SUBSIDIZE INDEFINITELY THE EXPENSE OF THE PROGRAM. IF THE PROGRAM IS TO BECOME FINANCIALLY SELF-SUPPORTING AS CONGRESS INTENDED, WISE FLOOD PLAIN MANAGEMENT MUST BE ACHIEVED IN ALL PARTICIPATING FLOOD-PRONE COMMUNITIES.

FEMA AND THE STATES HAVE IMPORTANT ROLES IN ACHIEVING THE GOAL OF THE NFIP TO REDUCE FLOOD LOSSES. FEMA IS REQUIRED BY LAW TO IDENTIFY ALL FLOOD HAZARD AREAS AND NOTIFY THE AFFECTED COMMUNITIES, ALERTING THEM TO THE DEGREE OF HAZARD. FEMA ALSO PROVIDES TECHNICAL ASSISTANCE AND FUNDING TO STATES AND LOCAL GOVERNMENTS FOR FLOOD HAZARD MITIGATION PURPOSES. IN THE EVENT OF A PRESIDENTIALLY-DECLARED FLOOD DISASTER, FEMA PROVIDES DISASTER ASSISTANCE AND AIDS IN RECOVERY EFFORTS TO COMMUNITIES PARTICIPATING IN THE PROGRAM. FEMA IS ALSO REQUIRED BY LAW TO DEVELOP CRITERIA OR STANDARDS TO ENCOURAGE STATES AND LOCAL GOVERNMENTS TO ADOPT ADEQUATE MEASURES FOR FLOOD HAZARD MITIGATION.

THE OFFICE OF STATE AND LOCAL PROGRAMS AND SUPPORT IS RESPONSIBLE FOR SEVERAL ACTIVITIES IN ADMINSTERING THE NATIONAL FLOOD INSURANCE ACT TO ACHIEVE THE GOALS SET FORTH BY CONGRESS. THESE ACTIVITIES INCLUDE: (1) IDENTIFYING AND STUDYING FLOOD RISK AREAS; (2) ESTABLISHING AND MAINTAINING MINIMUM STANDARDS FOR COMMUNITY FLOOD PLAIN MANAGEMENT PROGRAMS; (3) ACQUIRING SEVERELY OR REPEATEDLY FLOOD DAMAGED PROPERTIES; AND, (4) PROVIDING FINANCIAL ASSISTANCE TO STATES TO DEVELOP THEIR CAPABILITIES IN FLOOD HAZARD MITIGATION ACTIVITIES.

SECTION 1360 OF THE ACT REQUIRES FEMA "TO IDENTIFY AND PUBLISH INFORMATION WITH RESPECT TO ALL FLOOD PLAIN AREAS, INCLUDING COASTAL AREAS LOCATED IN THE UNITED

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STATES, WHICH HAVE SPECIAL FLOOD HAZARDS," AND TO "ESTABLISH FLOOD-RISK ZONES IN ALL SUCH AREAS, AND MAKE ESTIMATES WITH RESPECT TO THE RATES OF PROBABLE FLOOD-CAUSED LOSS FOR VARIOUS FLOOD-RISK ZONES FOR EACH OF THESE AREAS." THE 1968 ACT SET A FIVE YEAR DEADLINE FOR IDENTIFICATION OF ALL FLOOD PLAIN AREAS AND A FIFTEEN YEAR DEADLINE FOR ESTABLISHING FLOOD-RISK ZONES.

WE HAVE IDENTIFIED FLOOD HAZARDS IN APPROXIMATELY 20,000 COMMUNITIES AND PUBLISHED MAPS FOR THESE COMMUNITIES. THUS, WE HAVE SUCCESSFULLY COMPLETED THE FLOOD HAZARD IDENTIFICATION REQUIREMENT OF THE ACT. OF THIS TOTAL NUMBER, AS OF JANUARY 31, 1982, 17,157 COMMUNITIES WITH IDENTIFIED FLOOD HAZARDS HAVE CHOSEN TO PARTICIPATE IN THE PROGRAM. 9,893 OF THOSE COMMUNITIES PARTICIPATE IN THE EMERGENCY PHASE OF THE PROGRAM. 7,264 OF THE TOTAL NUMBER OF COMMUNITIES PARTICIPATING IN THE PROGRAM ARE IN THE REGULAR PHASE. FOR MOST COMMUNITIES, REGULAR PROGRAM PARTICIPATION MEANS THAT BASE FLOOD ELEVATIONS HAVE BEEN DETERMINED FOR THE IDENTIFIED FLOOD HAZARD AREAS IN THESE COMMUNITIES. ALSO, IN MANY OF THESE COMMUNITIES FLOODWAY DATA HAS BEEN DEVELOPED.

WITH THE 1983 DEADLINE APPROACHING FOR ESTABLISHING FLOOD-RISK ZONES IN THE COMMUNITIES WHICH HAVE NOT HAD DETAILED FLOOD STUDIES CONDUCTED, IT IS CLEAR WE WILL NOT MEET THAT DEADLINE. WHILE WE ANTICIPATE WE WILL BE ABLE TO CONVERT MANY COMMUNITIES TO THE REGULAR PHASE OF THE PROGRAM WITHOUT DETAILED ANALYSIS OF THEIR FLOOD HAZARDS BECAUSE THE FLOOD RISKS ARE CONSIDERED MINIMAL, AT LEAST 4,500 NEW DETAILED STUDIES MUST BE INITIATED IN ADDITION TO OVER 3,000 PRESENTLY UNDERWAY.

THUS, WITH SEVERAL THOUSAND DETAILED STUDIES REMAINING, OUR NEW STUDIES EFFORT CANNOT BE CONCLUDED BEFORE 1987. THIS DEADLINE, OF COURSE, ASSUMES WE HAVE

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SUFFICIENT FUNDS FOR THESE REMAINING STUDIES.

THE PRIMARY REASON WE HAVE NOT BEEN ABLE TO ACCELERATE FLOOD STUDIES IS LACK OF FUNDING. WE HAVE $32,356,000 FOR FLOOD STUDIES FOR FY 1982. FOR FY 1983, WE HAVE REQUESTED $45,582,000 FOR FLOOD STUDIES. WE ARE COMMITTING THESE LIMITED FUNDS TO THE FOLLOWING EFFORTS AS PRIORITIES: STUDYING ONLY AREAS WHICH OUR REGIONAL OFFICES, IN COOPERATION WITH THE STATES, HAVE IDENTIFIED AS POSSESSING HIGH OR RAPID DEVELOPMENT; RESTUDYING RAPIDLY GROWING HIGH RISK AREAS SUCH AS DADE COUNTY, FLORIDA AND ORLEANS AND JEFFERSON PARISH, LOUSISANA; AND, FINALIZING COASTAL COMMUNITY STUDIES INCLUDING IDENTIFICATION OF THE WAVE HEIGHT HAZARD.

WE HAVE REQUESTED THE CONGRESS TO EXTEND THE 1983 DEADLINE FOR COMPLETING FLOODING STUDIES TO 1987. HOWEVER, THE SUCCESSFUL COMPLETION OF THE NEW STUDIES EFFORT WILL BE DEPENDENT ON THE AVAILABILITY OF ADEQUATE FUNDS. WE ARE MAKING EVERY EFFORT TO ECONOMIZE AND MAINTAIN THE ANNUAL AVERAGE NEW STUDY COST OF $88,000. WE ARE INTENSIFYING OUR SEARCH FOR DATA DEVELOPED BY OTHERS WHICH CAN BE UTILIZED IN THE PRODUCTION OF OUR FLOOD STUDIES. WE VIEW THE STUDY EFFORT AS ESSENTIAL TO THE LONG-TERM SUCCESS OF THE PROGRAM. WHILE WE ARE MAKING EVERY EFFORT TO KEEP THE LID ON COSTS AND EXPLORE SOME MEANS OF DEFRAYING COSTS, WE WILL NEED ADEQUATE FUNDING FROM THE CONGRESS TO PROVIDE SUFFICIENT FLOOD RISK DATA TO THE COMMUNITIES REMAINING TO BE STUDIED.

I HAVE OUTLINED FOR YOU THE FLOOD RISK DATA NEEDS OF THE NATION'S FLOOD-PRONE COMMUNITIES, WHICH FEMA IS ATTEMPTING TO MEET. I WOULD NOW LIKE TO BRING YOUR ATTENTION TO TWO OTHER PROGRAM INITIATIVES FEMA HAS UNDERTAKEN TO REDUCE FLOOD RISKS.

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ONE NOTEWORTHY AND COST EFFICIENT EFFORT IS THE SECTION 1362 ACQUISITION PROJECT. SECTION 1362 OF THE NATIONAL FLOOD INSURANCE ACT OF 1968 AUTHORIZES THE DIRECTOR OF THE FEDERAL EMERGENCY MANAGEMENT AGENCY TO NEGOTIATE FOR THE PURCHASE OF CERTAIN FLOOD DAMAGED, INSURED, PROPERTIES FOR SUBSEQUENT TRANSFER TO STATE OR LOCAL AGENCIES. LAND ACQUIRED THIS WAY IS PLACED IN PERMANENT OPEN SPACE USE, FREE OF VULNERABILITY TO FUTURE FLOOD DAMAGE. THE PURPOSE OF THE SECTION IS, THEREFORE, TO REDUCE THE COSTS, TO THE FLOOD INSURANCE PROGRAM AND DISASTER RELIEF PROGRAM, OF RESPONDING TO REPETITIVE FLOOD LOSSES AND TO ASSIST INSUREDS IN RELOCATING OUT OF THE FLOOD PLAIN, THUS, BREAKING THE CYCLE OF CONTINUING FLOODING AND REPAIR OF INSURED STRUCTURES. DURING THE TWO YEARS OF PROPERTY PURCHASES UNDER THIS SECTION, 163 PROPERTIES IN SIXTEEN COMMUNITIES WERE ACQUIRED AT A COST OF JUST OVER $9.0 MILLION.

CONCERNING THE COST EFFECTIVENESS OF THE ACQUISITION PROGRAM, OUR RESEARCH HAS DETERMINED THAT THE AVERAGE AFTER INSURANCE COST FOR ACQUIRING ELIGIBLE PROPERTIES ON A NATIONWIDE BASIS, IN 1981 DOLLARS, WILL BE $22,000. THE SUBSIDY PORTION ON INSURANCE CLAIMS, IS OVER $23,000 IN 1981 DOLLARS. THIS POTENTIAL FOR SAVINGS DOES NOT INCLUDE THOSE DAMAGES COVERED BY PREMIUMS AS WELL AS OTHER COSTS TO SOCIETY SUCH AS DEATH, REDUCED PRODUCTIVITY, BUSINESS INTERRUPTION, AND THE IMPACT OF UNNECESSARILY REBUILDING EXISTING HOUSING. EVALUATION OF THE INITIAL TWO YEARS OF THE PROGRAM CONFIRMS THIS ACHIEVEMENT OF COST SAVINGS.

THIS YEAR, FEMA WILL CONCENTRATE ON SELECTING PROJECTS WHICH BEST MEET THE SELECTION FACTORS IN OUR REGULATIONS. FOR FISCAL YEAR 1983, $4.78 MILLION IS BEING REQUESTED TO CONTINUE THE 1362 PROGRAM.

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ANOTHER INITIATIVE DESIGNED TO AID IN ACHIEVING THE GOALS OF THE PROGRAM IS THE FLOOD HAZARD MITIGATION ORIENTED STATE ASSISTANCE PROGRAM. SUCCESSFUL FLOODPLAIN MANAGEMENT EFFORTS REQUIRE A COOPERATIVE INTERGOVERNMENTAL APPROACH, WITH STATES FORMING THE KEY LINK. RECOGNIZING THIS, FEMA PROVIDES SUPPORT TO EACH STATE TO ENCOURAGE THE EXERCISE OF THEIR FLOODPLAIN MANAGEMENT RESPONSIBILITIES. SUCH SUPPORT INCLUDES ANNUAL FINANCIAL ASSISTANCE; TECHNICAL ASSISTANCE, AS NEEDED; AND THE SHARING OF EXPERTISE, POLICIES, AND EXPERIENCES AT AN ANNUAL CONFERENCE FOR THE STATES.

THE STATE ASSISTANCE PROGRAM IS DESIGNED TO DEVELOP OR IMPROVE:

- STATE PLANS TO PERFORM INTERGOVERNMENTAL FLOODPLAIN MANAGEMENT COORDINATION ACTIVITIES AND TO DEVELOP FORMAL STATEWIDE FLOODPLAIN MANAGEMENT PROGRAMS;

- STATEWIDE INFORMATION NETWORKS THAT PROMOTE AN INCREASED UNDERSTANDING OF FLOODPLAIN MANAGEMENT CONCEPTS AND TECHNIQUES; AND

- STATE PROGRAMS TO ASSIST LOCAL GOVERNMENTAL OFFICIALS IN THE MECHANICS OF IMPLEMENTING AND ADMINISTERING FLOODPLAIN MANAGEMENT PROGRAMS THEREBY DECREASING THE NEED FOR FEDERAL INVOLVEMENT.

FISCAL YEAR 1981 STATE ASSISTANCE PROGRAM FUNDING SUPPORTED THE FOLLOWING NOTE WORTHY ACTIVITIES UNDERWAY DURING FY 1982:

- THE DELIVERY OF TECHNICAL SERVICES TO LOCAL COMMUNITIES IN 26 STATES.
- THE DEVELOPMENT OF NEW OR IMPROVED FLOODPLAIN MANAGEMENT LEGISLATION IN 15 STATES.

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- THE PREPARATION OF ASSESSMENT REPORTS, INVENTORIES OR MITIGATION PLANS IN 26 STATES.
- THE PUBLICATION OF GUIDEBOOKS, MANUALS OR BROCHURES IN 19 STATES.
- THE DEVELOPMENT OF PUBLIC AWARENESS CAMPAIGNS OR MATERIALS IN 19 STATES.
- THE ESTABLISHMENT OF FLOOD HAZARD DATA REPOSITORIES IN 23 STATES.
- THE INSTRUCTION OF LOCAL OR STATE OFFICIALS ON FLOODPLAIN MANAGEMENT IN 20 STATES.
- THE DELIVERY OF INFORMATION PACKAGES ON THE NFIP IN 13 STATES.
- THE DEVELOPMENT OF TECHNICAL INSTRUCMENTS, SUCH AS MODEL ORDINANCES, IN 13 STATES.

THE FISCAL YEAR 1982 FUNDING WILL FURTHER THESE AND SIMILIAR ACTIVITIES IN ADDITIONAL STATES.

IN FY 1983, FEMA PROPOSES TO INITIATE 54 COOPERATIVE AGREEMENTS ON A 75% FEDERAL 25% STATE COST-SHARING BASIS WITH THE 50 STATES, THE DISTRICT OF COLUMBIA, GUAM, PUERTO RICO, AND THE VIRGIN ISLANDS. CONTINUING OBJECTIVES FOR THIS ASSISTANCE PROGRAM INCLUDE:

- STRENGTHENED STATE ENABLING LEGISLATION;
- DEVELOPMENT OF ADEQUATE STANDARDS AND CRITERIA FOR LOCAL REGULATIONS;
- IMPROVEMENT OF STATE AND LOCAL FLOODPLAIN REGULATIONS;
- CENTRALIZED AND RESPONSIVE INFORMATION SERVICES AND DATA SOURCES IN EACH STATE;
- IMPROVED ACCESSIBILITY OF THE PUBLIC TO INFORMATION ABOUT FLOOD HAZARDS AT THE STATE AND LOCAL LEVEL;
- SUBSTANTIAL INCREASE NATIONWIDE IN THE NUMBER OF COMPETENT INDIVIDUALS

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AT ALL LEVELS OF GOVERNMENTS, WHO ARE KNOWLEDGEABLE ABOUT FLOOD HAZARD MITIGATION (PARTICULARLY AT THE LEVEL, WHICH IS CLOSE TO THE PROBLEM);

- SUBSTANTIAL INCREASE IN TECHNICAL ASSISTANCE TO COMMUNITIES TO MAXIMIZE THE USE OF SUCCESSFUL FLOOD HAZARD MITIGATION STRATEGIES AND METHODS;
- SUFFICIENT MONITORING AND EVALUATION TO ASSURE COMMUNITY COMPLIANCE WITH STATE AND LOCAL REGULATIONS.

AS WE MEET THESE OBJECTIVES, WE WILL MOVE CLOSER TO SHIFTING GREATER RESPONSIBILITY TO THE STATES FOR MEETING THE CHALLENGES CREATED IN WISELY USING THE NATION'S FLOOD PLAINS AND PROTECTING OUR CITIZENS AGAINST FLOOD DAMAGE.

WE KNOW THAT FLOODS ARE THE MOST DEVASTING RECURRING DISASTER TO HIT OUR CITIZENS YEAR AFTER YEAR. THE FLOOD HAZARD MITIGATION ACTIVITIES ASSOCIATED WITH THE NATIONAL FLOOD INSURANCE PROGRAM AND ADMINISTERED BY FEMA ARE DESIGNED TO HELP THESE PEOPLE AVOID THIS DEVASTATION CAUSED BY FLOODS AND, WHEN IT CANNOT BE AVOIDED, TO RECOVER AS QUICKLY AS POSSIBLE WITHOUT ECONOMIC RUIN.

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Federal Emergency Management Agency

Washington, D.C. 20472

FEB 23 1982

Honorable Thomas P. O'Neill, Jr.
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

Enclosed is proposed legislation which would extend the National Flood Insurance Program under the National Flood Insurance Act of 1968, as amended.

Section (a) of the bill amends section 1319 of the National Flood Insurance Act of 1968 to extend, until September 30, 1984, the period during which new contracts for flood insurance may be entered into. Authority under current law to issue policies expires on September 30, 1982.

The program will benefit by the confidence in the program's long-term prospects which the proposed two-year extension will instill in insurance agents and brokers doing business with the program. The availability of coverage at a reasonable cost is a necessary incentive to adoption by communities of adequate land use and flood control measures and to furthering prudent lending practices by Federally regulated lenders and Federal agencies. Provision of flood insurance through the private sector will not be realized until loss mitigation has been substantially accomplished through the flood elevation rate maps necessary for actuarial ratemaking for flood insurance have been completed, and the program is on a self-supporting basis through the establishment of actuarially sound flood insurance rates.

In this connection, a two-year extension is very desirable from the standpoint of the Administration's goal of minimizing government involvement in the National Flood Insurance Program (NFIP). FEMA is already working with insurance industry trade associations, insurers and the principal insurance rating organization in efforts to perfect the operation of the NFIP, improve the relationship between the private sector and the Government, and develop options for providing a structure for interim and longer term industry participation in the NFIP.

Section (b) of the bill amends section 1336 of the National Flood Insurance Act of 1968 to extend until September 30, 1984, the period during which Federally subsidized flood insurance may

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be provided in communities for which actuarial rates and flood hazard elevation studies have not yet been completed. Authority under current law will expire on September 30, 1982. The extension to September 30, 1984, for the emergency program is necessary for the continued availability of the benefits of Federally subsidized flood insurance in communities identified as areas of special flood hazard but for which the more precise rate maps necessary for conversion to the regular flood insurance program have not yet been completed. Provision of the subsidized rates under section 1336 is conditioned upon a community's having adopted at least minimal standards for flood-plain management. Failure to extend the authority in this regard would constitute breach of faith by removing availability of needed flood insurance protection from over 17,000 participating communities and result in a loss of important incentives for localities to adopt measures against unsafe new construction in areas of special flood hazard.

Section (c) of the bill extends the date of completion of all of the studies needed to determine elevations from August 1, 1983, (or fifteen years after the National Flood Insurance Act took effect) to September 30, 1987. An extension of time is needed to complete these studies.

The Office of Management and Budget advises that there is no objection from the standpoint of the Administration's program to the submission of this legislation for the consideration of the Congress and that its enactment would be in accord with the program of the President.

Sincerely,

George Jett
General Counsel

Enclosure

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A B I L L

To amend the National Flood Insurance Act of 1968, as amended, to extend certain authorities thereunder, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the National Flood Insurance Act of 1968, as amended, is further amended:

(a) by striking out "September 30, 1982 in section 1319 (40 U.S.C. 4026) and inserting in lieu thereof "September 30, 1984";

(b) by striking out "September 30, 1982" in section 1336(a) (40 U.S.C. 4056(a)) and inserting "September 30, 1984" in lieu thereof;

(c) by deleting the words "within fifteen years of such date" in section 1360(a)(2) (40 U.S.C. 4101(a)(2)) and inserting in lieu thereof "by September 30, 1987."

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Chairman GONZALEZ. Thank you very much, Mr. Thomas. The only question I have really is for Mr. Bragg, inasmuch as you are recommending that we not extend the crime and the riot reinsurance programs, is it your thinking that there is no continuing need for this kind of program, and if it is, are you of the opinion that such need as may be can be taken care of by the private insurance market?

Mr. BRAGG. Mr. Chairman, you are correct in your assumption that I am recommending that there is not a need for this program at the Federal level. It may be possible in those areas where there are still numbers of insured's within our program that they would have to seek coverage from the private sector or perhaps through some State programs that could be instituted.

Chairman GONZALEZ. Actually, though, as you know—and I think you fully realize—the States seem to be carrying the bulk of the program. Does that not indicate, though, that you just do not find private insurance companies are offering this kind of insurance at affordable rates?

Mr. BRAGG. Mr. Chairman, if I could elaborate briefly, I believe that in most States in this country there is affordable crime insurance available. There are also a number of States that provide this sort of coverage through their coverages in the State FAIR plans, for example. Additionally, two States have initiated programs of their own, those being Michigan and New Jersey.

What I am recommending is that those States that feel they have a high concentration of constitutents who cannot obtain insurance through the private market should work with the private insurance industry to structure one of those two, or perhaps another solution to their problems; but States have begun to meet this obligation already, and alternatives are available to them.

Chairman GONZALEZ. Do you have any recent documentation of this? Last year we had extensive hearings, and the testimony presented overwhelmingly showed that there is a continuing desperate need for this insurance, in fact, and that short of the national Federal program, there just is no insurance available in the private sector at affordable prices.

I just wonder if your recommendation is based on some documentation showing a contradiction to the testimony we received, or whether it is urged on by your budgetary exigencies and the fact that the level of cost at, I think you said, $25 million is unacceptable.

Mr. BRAGG. Mr. Chairman, part of our recommendation is based on the fact that the program lost $25 million last year. It is also based on the analysis of the statistical information available to us; specifically, the fact that although the program has been in effect for 10 years and experiences very heavily subsidized rates, there are still across the country only 70,000 policyholders in the program.

Additionally, I might add, Mr. Chairman, that in the course of the last year we have seen a decline in the number of our policyholders by nearly 12,000. So to summarize, my recommendation is based on an analysis of statistical information available on the program, as well as a consideration for the very substantial losses in

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the program in the past year, and, in fact, for the entire history of the program.

Chairman GONZALEZ. Well, the reason I raise that is that in examining your statement, I see no reference to our bill H.R. 5731. Are you familiar with what we are suggesting in the bill?

Mr. BRAGG. Yes, sir.

Chairman GONZALEZ. And you do not see any wisdom to the provison of $50 million for reimbursing the insurance fund? You have evaluated that?

Mr. BRAGG. Yes, sir, Mr. Chairman. We have reviewed your legislation, and quite honestly, we would still recommend, after that review, that this problem is one which has been handled in many States so that there is a mechanism available to other States to follow along those lines and to adopt programs where needs exist rather than to focus on a program that is national in scope.

Chairman GONZALEZ. You do not really mean many States.

Mr. BRAGG. No, sir. I think there may be a problem in only a few States.

Chairman GONZALEZ. You referred to many States having effective programs available.

Mr. BRAGG. Specifically, there are two States which have their own crime insurance programs, and there are five States which include crime insurance coverage in—through their FAIR plans. There are many States which are not even participating in our Federal crime insurance program, and therefore have not seen the need either to institute programs of their now, nor to participate in the Federal program.

Chairman GONZALEZ. Mr. Wylie?

Mr. WYLIE. Thank you, Mr. Chairman. I just wanted to congratulate both of you for excellent presentations. Your first appearance before the committee has gone very well, indeed.

I happen to be one of those who wants to associate myself with your recommendations, both on riot insurance and crime insurance. I have been saying for sometime this should be phased out as a Federal program, so I am prepared to follow your recommendations and try to help.

I do have one question I would like to submit for the record on the EDS Federal Corp., Mr. Chairman. I am doing that because I must leave for the airport to get a 5 o'clock plane.

Chairman GONZALEZ. Without objection, so ordered. Have a safe trip.

[Congressman Wylie submitted the following question which appears with the response of Mr. Bragg:]

Question. As I understand it, the flood insurance program was converted from a joint industry/government arrangement to a totally government controlled program in 1978. At that time, the contract for operating the program through EDS Federal Corporation was for approximately $10 to $11 million for each of the first two years, 1978 and 79.

Could you tell us exactly how much that contract has actually cost for each of the years since 1978 and what do you expect the next year's contract to cost? Also, could you provide us with the number of policies in existence in each of those years?

How do you justify these increases when your people— and I know you were not there at the time—made such a big deal about assuring Congress that the estimated costs were accurate in the face of serious doubts, particularly from Republican members of this committee?

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Answer.

Contract year (Nov. 4–Nov.3)	Actual cost	Policies in force
1—1978	$13,588,214	1,362,596
2—1979	15,691,846	1,757,976
3—1980	23,500,920	1,922,802
4—1981	27,447,472	1,879,546
5—1982 [1]	[2] 27,180,845	1,972,000

[1] Contract year ends Sept. 30, 1982.
[2] Negotiated contract cost.

The increase in contract costs evident in contract years 3 and 4 above are attributable largely to an unusually large number of claims processed during contract year 3, systems enhancements undertaken during contract years 3 and 4, and the unforeseen impact of inflation on contractor operating expenses during this period.

The major enhancement instituted during contract years 3 and 4 was a new business system for processing policy applications. This system became operable in January 1981, and allowed EDSF to reduce its policy processing staff by 60 during contract year 4.

Chairman GONZALEZ. Thank you very much, Mr. Thomas, Mr. Bragg, we appreciate your testimony.

Mr. BRAGG. Thank you, Mr. Chairman.

Chairman GONZALEZ. I would proceed with the witnesses and ask them to proceed. Mr. Richard Martinez, vice president of the National Hispanic Housing Coalition; Ms. Robin Shields, National Congress of American Indians; Mr. C. O. Smith, Jr., chairman of the board, Manufactured Housing Institute, representing the Coordinating Council on Manufactured Housing Finance; and Mr. E. Morgan Williams, president of the Cooperative League of the United States.

Ms. SHIELD. No, it is not, Mr. Chairman.

Chairman GONZALEZ. Thank you, the record should indicate that you are substituting for Mr. Andrade.

Ms. SHIELD. Yes, I am.

Chairman GONZALEZ. Would you mind identifying yourself for the record and then we will recognize Mr. Martinez.

Ms. SHIELD. I am Robin Shield, housing coordinator for the National Congress of American Indians, and I am here in place of Mr. Andrade.

Chairman GONZALEZ. I recall that you had been here before with Mr. Andrade. Thank you very much.

Mr. Martinez, we recognize you. Thank you very much for your continuing help and support, and your very valuable research. It may be that you wish to summarize your statement. The presentation you made last year was superb. Because of the lateness of the hour, you may wish to summarize your statement. We will present your entire written, prepared text for the record.

Mr. MARTINEZ. I will be glad to do that, Mr. Chairman.

STATEMENT OF RICHARD J. MARTINEZ, VICE PRESIDENT OF OPERATIONS, NATIONAL HISPANIC HOUSING COALITION

Mr. MARTINEZ. Congressman Gonzalez, and members of the House Subcommittee on Housing and Community Development: My name is Richard Martinez, and as indicated before I am with the National Hispanic Housing Coalition. It is my pleasure to present before this subcommittee testimony in support of the provisions contained in H.R. 5731.

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I would like to commend the authors of this bill for proposing legislation that is both sympathetic to the housing problems of this Nation's low-income population and beneficial to the devastated housing industry. I must also congratulate the cosponsors of the bill for their boldness in presenting an alternative to the administration's proposals, especially at a time when expressing discontent over the administration's economic recovery program is unpopular.

The NHHC has testified on various occasions before this committee. I will therefore refrain from describing in detail the history of this organization. But since I do represent the National Hispanic Housing Coalition, I think I would be remiss if I did not point out some information concerning the Hispanic population.

Hispanics are the fastest-growing and most ethnically diverse minority group in the Nation. According to the 1980 census report, the number of Hispanics living in the United States increased by 65 percent. This figure does not reflect the 3.6 million Puerto Ricans living in the Commonwealth of Puerto Rico. Should this kind of increase continue, and all studies indicate that it will, the Hispanic population in this country will reach 20 million by 1986 and, it is estimated, at 41 million by the year 2000.

Unfortunately, while Hispanics have surpassed other groups in terms of growth rate, we still remain the "forgotten people." According to all available statistics, 25 percent of all Hispanics earn incomes which place them below the poverty level. At least 15 percent of all Hispanic families are subsisting on an annual income of less than $4,100. As a result, it is almost impossible for Hispanics to buy their own homes. Therefore, we find that approximately 58 percent of all Hispanics are renters. As renters, they are forced to rely on others for housing improvements. Therefore, it is no surprise and should not be any surprise, that the rate of substandard housing among Hispanics is three times higher than that for the rest of the population, with 44 percent of all Hispanic families living in substandard housing.

Although I am here, and I continue to come here, advocating the needs and concerns of Hispanics, I do want to make it clear that Hispanics are not alone in the current housing crisis. The current housing crisis is affecting everyone from consumers to producers. There is apprehension in all sectors. Everybody is desperate. Everybody is fearful of a depression. And everybody wants some assurances that in the near future the housing market will regain its strength so that once again, all Americans can look forward to safe and sanitary housing. Everyone wants safety and tranquility, and yet, the administration has been unable to introduce stability into a rational housing policy.

During times of crisis, the people historically have turned to the Government for help. This time the Government is saying no. There are more than 3 million families that rely on Government assistance to help them pay rent, and there are thousands more which are currently living in substandard and overcrowded housing waiting for a subsidized unit to become vacant or a new one to be built. Unfortunately, at a time when decent and affordable shelter is desperately needed to house Hispanics and other minorities, the administration proposes to end some of its most active production programs.

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The most drastic change is the request to end the section 8 new construction and substantial rehab programs. The administration has stated that such programs are too expensive to continue and it, therefore, proposes to cancel units already approved under section 8 and public housing programs.

We understand the administration's rationale for wanting to keep program costs down in order to reduce Federal outlays. We have always supported the goal of a fiscally responsible government, but at the same time, it has also argued that such fiscal policies must be socially responsible. Both are obligations of Government. H.R. 5731, a bill which we support, provides in our opinion a constructive and effective alternative for addressing our current housing crisis in a way that is both physically and socially sound and provides a direct benefit to all Americans.

The bill also serves as a reminder to all of us that the Government can commit itself to insuring that all Americans have access to safe, decent, sanitary and affordable homes.

We are particularly impressed by the proposed multifamily rental housing program provision because it is aimed at assisting not only the very poor but also those of moderate income. The NHHC has, since its creation, professed that through the formation of public/private ventures, the needs of Hispanics can be met in a way that is beneficial to both business and the community.

There are, however, Mr. Chairman, some recommendations we would like to make to you and the committe concerning the multifamily rental housing program. First, we feel that the percentage of the units reserved for low-income families in a federally-assisted project should possibly be increased from 20 percent to 40 percent. Additionally, to insure that the federally-assisted units remain in the rental market, we feel there should be a provision requiring that all lower-income units remain as rentals for 30 years unless sold, under limited equity arrangements, to their occupants. If enacted, these changes would provide not only additional affordable housing units for low-income families, but also would provide appropriate long-term safeguards designed to prevent families from being displaced from their homes.

The potential social and economic benefits of homeownership are widely acknowledged. Homeownership provides a pride of ownership in the family, adds to community stabilization, provides local governments with additional revenue in the form of property taxes and stimulates the commercial sector, particularly those engaged in home construction and maintenance.

As I indicated earlier, the problem of affordability transcends income, race, age and sex. It generally affects everyone in this country. Hardest hit of all, however, are the low- and moderate-income families who now, more than ever before, are forced to admit that their dream of homeownership will never be realized in their lifetime, and possibly even in their children's lifetime.

Because of this, we strongly support the homeownership provisions in H.R. 5731. We feel that this is a very important first step in opening up once again homeownership opportunities for many more Americans.

While we recognize the value of homeownership, we are also acutely aware of the fact that public housing represents the only

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source of affordable housing for millions of low-income families. As a former director of human resources for the San Antonio Housing Authority, I can personally attest to the important role that public housing plays in providing shelter to many families who without it would be forced to seek shelter in a market that is unable and, to a great extent, unwilling to provide for their housing needs.

The provisions for additional units of low-rent public housing and also for modernization and operating subsidies I think are another indication of the commitment of the office to continue the very valuable program. Again, for that reason we support it.

Even though the housing crisis in urban areas is severe—and the bill will address many of the urban housing concerns—what we like about it is that it includes provisions for rural and farm worker families as well whom, you have heard us testify before, Mr. Chairman, represent really those individuals in that segment of the population which live in housing conditions which are among the most deplorable in the country. And without a doubt, when we talk about rural housing needs and the rural segment, we cannot ignore the fact that Hispanic farm workers are among the worst housed segment in the entire Hispanic population.

Again, I would just like to state that our support for this bill comes from the fact that after an analysis, we see that it does address as best as possible under these conditions the housing not only needs but aspirations of all Americans.

That concludes my summary, Mr. Chairman. I would be glad to answer any questions you may have.

[Mr. Martinez' prepared statement, on behalf of the National Hispanic Housing Coalition, follows:]

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STATEMENT OF

RICHARD J. MARTINEZ
ON BEHALF OF

NATIONAL HISPANIC HOUSING COALITION
(NHHC)

BEFORE THE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

MARCH 25, 1982

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[redacted]

[redacted] MEMBERS OF THE HOUSE [redacted] COMMITTEE ON HOUSING AND [redacted] DEVELOPMENT. MY NAME IS RICHARD [redacted] AND I AM VICE-PRESIDENT OF [redacted] FOR THE NATIONAL HISPANIC HOUSING COALITION (NHHC). IT IS MY PLEASURE TO PRESENT BEFORE THIS [redacted] COMMITTEE TESTIMONY IN SUPPORT OF THE PROVISIONS CONTAINED IN H.R. 555, THE HOUSING AND [redacted] DEVELOPMENT AMENDMENTS OF 1991.

I WOULD LIKE TO COMMEND THE AUTHORS OF THE BILL FOR PROPOSING LEGISLATION THAT IS BOTH SYMPATHETIC TO THE HOUSING PROBLEMS OF THIS NATION'S LOW-INCOME POPULATION AND BENEFICIAL TO THE DEMORALIZED HOUSING INDUSTRY. I MUST ALSO CONGRATULATE THE CO-SPONSORS OF THE BILL FOR THEIR BOLDNESS IN PRESENTING AN ALTERNATIVE TO THE ADMINISTRATION'S PROPOSALS, ESPECIALLY AT A TIME WHEN EXPRESSING DISCONTENT OVER THE ADMINISTRATION'S ECONOMIC RECOVERY PROGRAM IS UNPOPULAR.

THE NHHC HAS TESTIFIED ON VARIOUS OCCASIONS BEFORE THIS COMMITTEE; I WILL, THEREFORE, REFRAIN FROM DESCRIBING IN DETAIL THE HISTORY OF THIS ORGANIZATION. IN BRIEF, THE NHHC IS A HISPANIC, NONPROFIT CORPORATION WHOSE PRIMARY GOAL IS TO ASSIST LOCAL HISPANIC COMMUNITY BASED ORGANIZATIONS (CBOs)

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DEVELOP HOUSING AND COMMUNITY DEVELOPMENT KNOWLEDGE AND SKILLS BY PROVIDING TRAINING AND TECHNICAL ASSISTANCE. ADDITIONALLY, WE DISSEMINATE INFORMATION, IDENTIFY FUNDING SOURCES, AND SERVE AS A CATALYST IN FORGING COOPERATIVE PARTNERSHIPS BETWEEN CBOS AND STATE AND LOCAL UNITS OF GOVERNMENT. SINCE ITS INCEPTION, THE NHHC HAS BEEN AWARE OF THE NEED FOR SUCH COOPERATIVE ENDEAVORS SO THAT COMMUNITIES CAN DETERMINE THEIR OWN SOLUTIONS.

THE NHHC, THROUGH FEEDBACK FROM ITS ESTABLISHED NATIONAL CHAPTER NETWORK, IS IN A POSITION TO UNDERSTAND AND ARTICULATE THE PROBLEMS FACED BY HISPANICS IN THEIR QUEST TO OBTAIN SAFE, DECENT, AND AFFORDABLE HOUSING. THE NHHC NATIONAL CHAPTER NETWORK IS REPRESENTATIVE OF ALL HISPANIC GROUPS AND IS COMPRISED OF 16 LOCAL CHAPTERS REPRESENTING 389 HISPANIC CBOS, AS WELL AS STATE AND LOCAL AGENCIES. CURRENTLY, THERE ARE LOCAL CHAPTERS IN THE STATES OF NEW YORK, FLORIDA, CONNECTICUT, MASSACHUSETTS, TEXAS, NEW MEXICO, ARIZONA, CALIFORNIA, WASHINGTON, COLORADO, MICHIGAN, AND THE COMMONWEALTH OF PUERTO RICO.

HISPANICS ARE THE FASTEST GROWING AND MOST ETHNICALLY DIVERSE, MINORITY GROUP IN THE NATION. ACCORDING TO THE 1980 CENSUS REPORT, THE NUMBER OF

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HISPANICS LIVING IN THE UNITED STATES INCREASED BY 65% BETWEEN 1970 AND 1980, BRINGING THE TOTAL TO 15 MILLION. THIS FIGURE DOES NOT REFLECT THE 3.6 MILLION PUERTO RICANS LIVING IN THE COMMONWEALTH OF PUERTO RICO. SHOULD THIS INCREASE CONTINUE, AND ALL STUDIES PROJECT THAT IT WILL, THE HISPANIC POPULATION WILL REACH 20 MILLION BY 1986 AND 41 MILLION BY THE YEAR 2,000.

UNFORTUNATELY, WHILE HISPANICS HAVE SURPASSED OTHER GROUPS IN TERMS OF GROWTH RATE THEY STILL REMAIN A "FORGOTTEN PEOPLE". ACCORDING TO AVAILABLE STATISTICS 25% OF ALL HISPANICS EARN INCOMES WHICH PLACE THEM BELOW THE POVERTY LEVEL, AS COMPARED TO ONLY 13% FOR THE GENERAL POPULATION. AT LEAST 15% OF ALL HISPANIC FAMILIES ARE SUBSISTING ON AN ANNUAL INCOME OF LESS THAN $4,100. SUCH INCOMES MAKE IT IMPOSSIBLE FOR HISPANICS TO PURCHASE THEIR OWN HOMES. AS A RESULT, APPROXIMATELY 58% OF HISPANICS ARE RENTERS, AS COMPARED TO 35% OF THE GENERAL POPULATION. AS RENTERS, HISPANICS ARE FORCED TO RELY UPON OTHERS FOR HOUSING IMPROVEMENTS. IT IS, THEREFORE, NO SUPRISE THAT THE RATE OF SUBSTANDARD HOUSING AMONG HISPANICS IS BETWEEN TWO AND THREE TIMES HIGHER THAN THAT FOR THE REST OF THE POPULATION, WITH 44% OF ALL HISPANIC FAMILIES LIVING IN SUBSTANDARD HOUSING. ADDITIONALLY, MORE THAN 20% OF THE

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UNITS INHABITED BY HISPANICS CONTAIN PHYSICAL INADEQUACIES, PARTICULARLY PLUMBING, KITCHEN, AND HEATING DEFICIENCIES.

THE CURRENT HOUSING CRISIS IS AFFECTING EVERYONE INVOLVED--FROM CONSUMERS TO PRODUCERS. TODAY THE CONSTRUCTION OF A NEW SINGLE FAMILY HOME STANDS AT 1/3 THE LEVEL IT STOOD IN 1977. THE CONSTRUCTION OF SINGLE AND MULTIFAMILY HOUSING IS LESS THAN HALF WHAT IT WAS IN 1977. THE HOUSING THAT IS CONSTRUCTED IS LIKELY TO REMAIN UNSOLD SINCE THE INTEREST RATES MAKE IT PROHIBITIVE FOR A FAMILY OF LOW AND MODERATE INCOME MEANS TO PURCHASE IT. THE BANKS THEMSELVES CAN'T AFFORD TO LOWER THEIR INTEREST RATES, AND ALREADY THERE IS MUCH FEAR THAT MANY SAVINGS AND LOANS WILL GO BANKRUPT. THERE IS APPREHENSION IN ALL SECTORS; EVERYBODY IS DESPERATE, EVERYBODY IS FEARFUL OF A DEPRESSION, AND EVERYBODY WANTS SOME ASSURANCES THAT, IN THE NEAR FUTURE, THE HOUSING MARKET WILL REGAIN ITS STRENGTH. EVERYBODY WANTS DOMESTIC TRANQUILITY. AND, YET, NOBODY HAS BEEN ABLE TO INDUCE STABILITY THROUGH A RATIONAL HOUSING POLICY.

DURING TIMES OF CRISIS, THE PEOPLE TURN TO GOVERNMENT FOR HELP, BUT, THIS TIME, THE GOVERNMENT IS SAYING NO. THERE ARE MORE THAN THREE MILLION FAMILIES

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WHO RELY ON GOVERNMENT ASSISTANCE TO HELP THEM PAY RENT, AND THERE ARE THOUSANDS MORE WHICH ARE CURRENTLY LIVING IN SUBSTANDARD AND OVERCROWDED HOUSING WAITING FOR A SUBSIDIZED UNIT TO BECOME VACANT OR A NEW ONE TO BE BUILT. AT A TIME WHEN DECENT AND AFFORDABLE SHELTER IS DESPERATELY NEEDED TO HOUSE HISPANICS AND OTHER MINORITIES, THE ADMINISTRATION PROPOSES TO END SOME OF ITS MOST ACTIVE PRODUCTION PROGRAMS.

THE MOST DRASTIC CHANGE IS THE REQUEST TO END THE SECTION 8 NEW CONSTRUCTION AND SUBSTANTIAL REHABILITATION PROGRAMS. THE ADMINISTRATION HAS STATED THAT SUCH PROGRAMS ARE TOO EXPENSIVE TO CONTINUE AND IT, THEREFORE, PROPOSES TO CANCEL UNITS ALREADY APPROVED UNDER SECTION 8 AND PUBLIC HOUSING PROGRAMS. CONSEQUENTLY, SOME 300,000 OF 700,000 UNITS IN THE PIPELINE WILL BE LOST. THIS IS ESPECIALLY TRAGIC AT A TIME WHEN THE STOCK OF RENTAL HOUSING IS SHRINKING RAPIDLY AND WHEN ALMOST ONE FIFTH OF ALL CONSTRUCTION WORKERS ARE UNEMPLOYED.

THE SECTION 8 EXISTING HOUSING PROGRAM WILL ALSO UNDERGO A METAMORPHOSIS. INSTEAD OF RETAINING THE PROGRAM IN ITS CURRENT FORM, THE ADMINISTRATION HAS PROPOSED THE IMPLEMENTATION OF A VOUCHER PROGRAM, INFORMALY KNOWN AS THE

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MODIFIED SECTION 8 EXISTING HOUSING PROGRAM. UNDER THIS PROGRAM, HUD WOULD PROVIDE LOW INCOME FAMILIES WITH A HOUSING CERTIFICATE WHICH WOULD COVER THE DIFFERENCE BETWEEN 30% OF THE FAMILY'S INCOME AND THE FAIR MARKET RENT. HOWEVER, THE ADMINISTRATION IS ALSO HOPING TO PASS LEGISLATION WHICH WOULD REQUIRE TENANTS TO COUNT FOOD STAMPS AS INCOME FOR THE PURPOSES OF CALCULATING THE PERCENTAGE OF RENT TENANTS MUST CONTRIBUTE. THE IMPACT THIS CHANGE ALONE WILL HAVE ON LOW-INCOME TENANTS IS SEVERE. RENTS WOULD GO UP BY 30% OF WHATEVER AMOUNT IN FOOD STAMPS A HOUSEHOLD RECEIVES. THIS MEANS THAT THE POOREST HOUSEHOLDS WITH THE MOST FOOD STAMPS WOULD GET THE BIGGEST RENT INCREASES. IT HITS PARTICULARLY HARD THOSE STATES WITH VERY LOW WELFARE PAYMENTS, SINCE THE VALUE OF FOOD STAMPS CAN BE AS HIGH, OR HIGHER, THAN CASH ASSISTANCE.

TENANTS WOULD ALSO HAVE TO PAY ANNUAL RENT INCREASES OUT OF THEIR OWN POCKET. THE CEILING ON ANNUAL RENT HIKES WILL INCREASE FROM 10% TO 20% AND TENANTS WILL BE RESPONSIBLE FOR PAYING FOR THAT AS WELL.

WE UNDERSTAND THE ADMINISTRATION'S RATIONALE FOR WANTING TO KEEP PROGRAM COSTS DOWN IN ORDER TO REDUCE FEDERAL OUTLAYS. BUT, IT IS IMPORTANT TO -

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REMEMBER THAT, IN ANY GIVEN YEAR, THE AMOUNT ALLOTTED FOR LOW-INCOME HOUSING ASSISTANCE NEVER EXCEEDED 1% OF TOTAL FEDERAL OUTLAYS. WE, THEREFORE, MUST ENSURE THAT SOMETHING IS DONE TO ADDRESS THE SEVERE HOUSING AND COMMUNITY DEVELOPMENT NEEDS OF THE POOR. THE NHHC HAS ALWAYS SUPPORTED THE GOAL OF A FISCALLY RESPONSIBLE GOVERNMENT, BUT AT THE SAME TIME, IT HAS ALSO ARGUED THAT SUCH FISCAL POLICIES MUST BE SOCIALLY RESPONSIBLE. BOTH ARE OBLIGATIONS OF GOVERNMENT. HR 5731, A BILL WHICH WE SUPPORT, PROVIDES A CONSTRUCTIVE AND AN EFFECTIVE ALTERNATIVE FOR ADDRESSING OUR CURRENT HOUSING CRISIS IN A WAY WHICH IS BOTH FISCALLY AND SOCIALLY SOUND.

THE BILL, ALSO SERVES AS A REMINDER TO ALL OF US THAT THE GOVERNMENT CAN COMMIT ITSELF TO ENSURING THAT ALL AMERICANS HAVE ACCESS TO SAFE, DECENT, SANITARY, AND AFFORDABLE HOMES.

WE ARE PARTICULARLY IMPRESSED BY THE PROPOSED MULTIFAMILY RENTAL HOUSING PROGRAM PROVISION BECAUSE IT IS AIMED AT ASSISTING NOT ONLY THE VERY POOR, BUT ALSO THOSE OF MODERATE INCOME. THIS PRODUCTION PROGRAM WILL ENCOURAGE PUBLIC AND PRIVATE SECTORS TO JOIN EFFORTS IN PROVIDING ONE OF THE MOST ESSENTIAL AND, AT THIS JUNCTURE, MOST SCARCE COMMODITIES--SAFE, DECENT, AND AFFORDABLE

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RENTAL HOUSING. THE NHHC HAS, SINCE ITS CREATION, PROFESSED THAT THROUGH THE FORMATION OF PUBLIC/PRIVATE VENTURES THE NEEDS OF HISPANICS CAN BE MET IN A WAY THAT IS BENEFICIAL TO BOTH BUSINESS AND THE COMMUNITY.

UNDER THE MULTIFAMILY RENTAL HOUSING PROGRAM, LOCAL AGENCIES TOGETHER WITH PRIVATE SPONSORS WILL DEVELOP APPLICATIONS FOR FEDERAL ASSISTANCE TO CONSTRUCT RENTAL UNITS. THE FEDERAL SUBSIDY COULD BE PROVIDED IN MANY WAYS, INCLUDING A GRANT FOR LAND ACQUISITION, OR A LOAN WITH AN INTEREST SUBSIDY. HUD WOULD ENCOURAGE THE PARTICIPATION OF LOCAL GOVERNMENTS BY FAVORING THOSE APPLICANTS WHO HAVE SUCCESSFULLY SECURED FINANCIAL CONTRIBUTIONS FROM THEIR LOCAL GOVERNMENTS TOWARD THE PROJECT. AT THE SAME TIME, HUD WOULD BE SAVING ON OUTLAYS BECAUSE APPLICANTS WOULD BE LEVERAGING FUNDS LOCALLY. THE PROGRAM WOULD PROVIDE BETWEEN 50,000 AND 100,000 NEWLY CONSTRUCTED MULTIFAMILY RENTAL UNITS WHICH, IN OUR OPINION, ARE DESPERATELY NEEDED AT THIS TIME. WHILE THE NUMBER OF UNITS APPEARS INSIGNIFICANT WHEN COMPARED TO THE NEED, IT IS SIGNIFICANT WHEN COMPARED TO THE NUMBER OF NEWLY CONSTRUCTED UNITS CALLED FOR IN THE ADMINISTRATION'S PROPOSALS.

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WHILE WE FIND THE PROGRAM TO BE CONCEPTUALLY SOUND AND STRUCTURALLY FEASIBLE, WE BELIEVE THAT SOME ASPECTS OF IT COULD BE CHANGED IN ORDER TO EXPAND ITS APPLICATION TO A LARGER SEGMENT OF THE LOW-INCOME POPULATION. FOR INSTANCE, WE FEEL THAT THE PERCENTAGE OF UNITS RESERVED FOR LOW-INCOME FAMILIES IN A FEDERALLY ASSISTED PROJECT SHOULD BE INCREASED FROM THE 20% ALLOTTED IN THE BILL TO 40%. ADDITIONALLY, TO ENSURE THAT THE FEDERALLY ASSISTED UNITS REMAIN IN THE RENTAL MARKET, WE FEEL THAT THERE SHOULD BE A PROVISION REQUIRING THAT ALL LOWER INCOME UNITS REMAIN AS RENTALS FOR 30 YEARS UNLESS SOLD, UNDER LIMITED EQUITY ARRANGEMENTS, TO THEIR OCCUPANTS. IF ENACTED, THESE CHANGES WOULD PROVIDE NOT ONLY ADDITIONAL AFFORDABLE HOUSING UNITS FOR LOW-INCOME FAMILIES, BUT WOULD ALSO PROVIDE APPROPRIATE LONG-TERM SAFEGUARDS DESIGNED TO PREVENT FAMILIES FROM BEING DISPLACED FROM THEIR HOMES.

THE POTENTIAL SOCIAL AND ECONOMIC BENEFITS OF HOMEOWNERSHIP ARE WIDELY ACKNOWLEDGED. HOMEOWNERSHIP PRODUCES A PRIDE OF OWNERSHIP IN THE FAMILY, ADDS TO COMMUNITY STABILIZATION, PROVIDES LOCAL GOVERNMENTS WITH ADDITIONAL REVENUE

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IN THE FORM OF PROPERTY TAXES, AND STIMULATES THE COMMERCIAL SECTOR--PARTICULARLY THOSE BUSINESSES ENGAGED IN HOME CONSTRUCTION AND MAINTENANCE.

DESPITE ALL OF THE ADVANTAGES ASSOCIATED WITH HOMEOWNERSHIP, AND THE DESIRE OF MILLIONS OF PEOPLE TO OWN THEIR HOME, WE ARE CURRENTLY FACED WITH THE HARSH REALITY THAT THE MAJORITY OF THE POPULATION IN THIS COUNTRY IS UNABLE TO PURCHASE A HOME.

THE COST OF A NEW HOME HAS GONE FROM $25,600 IN 1969 TO $71,600 IN 1981: AN INCREASE OF 211%. THE PRICE OF EXISTING HOMES FOR THIS SAME PERIOD OF TIME EXPERIENCED A 185% INCREASE. IN CONTRAST, MEDIAN FAMILY INCOME ROSE FROM $9,867 IN 1969 TO $21,023 IN 1981, BUT EVEN AT A MEDIAN INCOME OF $21,023, THE REALITY IS THAT THE CURRENT COST OF A NEW HOME, COUPLED WITH A 10% INTEREST RATE, WOULD REQUIRE A FAMILY TO HAVE AN INCOME OF $43,200 IN ORDER TO PURCHASE A NEW HOME.

THE PROBLEM OF AFFORDABILITY TRANSCENDS INCOME, RACE, AGE, AND SEX: IT GENERALLY AFFECTS EVERYONE IN THIS COUNTRY. HARDEST HIT OF ALL, HOWEVER, ARE THE LOW AND MODERATE INCOME FAMILIES WHO NOW, MORE THAN EVER BEFORE, ARE

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FORCED TO ADMIT THAT THEIR DREAM OF HOMEOWNERSHIP WILL NEVER BE REALIZED IN THEIR LIFETIME AND, POSSIBLY EVEN, IN THEIR CHILDREN'S LIFETIME.

THE HOMEOWNERSHIP PROVISIONS IN THE BILL WILL PROVIDE CLOSE TO 100,000 UNITS WITH SUBSIDIES WHICH WOULD REDUCE THE INTEREST RATES TO AS LOW AS 9 1/2% FOR A MAXIMUM OF 10 YEARS, THUS, INCREASING THE POTENTIAL FOR MORE FAMILIES TO BECOME HOMEOWNERS AND REAP THE SOCIAL AND ECONOMIC BENEFITS OF HOMEOWNERSHIP. THE POTENTIAL FOR HOMEOWNERSHIP TO BECOME A REALITY IS ANOTHER REASON WHY THE NHHC STRONGLY SUPPORTS HR 5731.

WHILE WE RECOGNIZE THE VALUE OF HOMEOWNERSHIP, WE ARE ALSO ACUTELY AWARE OF THE FACT THAT PUBLIC HOUSING REPRESENTS THE ONLY SOURCE OF AFFORDABLE HOUSING FOR MILLIONS OF LOW-INCOME FAMILIES. AS A FORMER DIRECTOR OF HUMAN RESOURCES FOR THE SAN ANTONIO HOUSING AUTHORITY I CAN PERSONALLY ATTEST TO THE IMPORTANT ROLE THAT PUBLIC HOUSING PLAYS IN PROVIDING SHELTER TO MANY FAMILIES WHO WITHOUT IT WOULD BE FORCED TO SEEK SHELTER IN A MARKET THAT IS UNABLE, AND TO A GREAT EXTENT, UNWILLING TO PROVIDE FOR THEIR HOUSING NEEDS.

HR 5731 PROVIDES 20,000 UNITS OF LOW RENT PUBLIC HOUSING, CLOSE TO $2 BILLION FOR MODERNIZATION OF EXISTING PUBLIC HOUSING STOCK, AND $1.6 BILLION

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FOR OPERATING SUBSIDIES. THROUGH THIS ACTION, WE ARE DEMONSTRATING TO BOTH THE STAFF AND RESIDENTS OF PUBLIC HOUSING THAT THEIR NEEDS WILL NOT BE FORGOTTEN. THIS ACTION IS REFRESHING BECAUSE, FOR TOO LONG NOW, PUBLIC HOUSING AUTHORITIES HAVE BEEN EXEMPLIFIED AS UNSUCCESSFUL SUBSIDIZED HOUSING EFFORTS IN THIS COUNTRY. UNDOUBTEDLY, SOME PUBLIC HOUSING AUTHORITIES HAVE FAILED AT MEETING THEIR GOALS. BUT WE CANNOT AND MUST NOT FORGET THAT THERE ARE MANY MORE SUCCESSFUL HOUSING AUTHORITIES THAN THERE ARE FAILURES.

THE HOUSING CRISIS IN URBAN AREAS IS SEVERE, AND THE BILL WILL ADDRESS MANY OF THE URBAN HOUSING CONCERNS. BUT WHAT MAKES THE BILL EVEN MORE COMMENDABLE IS THAT IT INCLUDES PROVISIONS FOR RURAL AND FARMWORKER FAMILIES WHO AT THE PRESENT TIME LIVE IN HOUSING CONDITIONS WHICH ARE AMONG THE MOST DEPLORABLE IN THE COUNTRY.

A MARCH, 1980, REPORT OF THE GENERAL ACCOUNTING OFFICE POINTS TO THE NOTORIOUS RURAL HOUSING PROBLEMS. ALTHOUGH RURAL AREAS CONTAIN ONE THIRD OF THE NATION'S POPULATION AND ABOUT ONE HALF OF THE SUBSTANDARD HOUSING, THEY RECEIVE ONLY ONE FIFTH OF THE TOTAL HOUSING SUPPORT PROVIDED BY THE FEDERAL GOVERNMENT.

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RURAL MINORITIES ARE MORE THAN FOUR TIMES LIKELY TO LIVE IN SUBSTANDARD HOUSING THAN OTHER AMERICANS; THEY HAVE INSUFFICIENT PLUMBING AND KITCHEN FACILITIES, LEAKY ROOFS, BROKEN DOORS, NO HEAT, AND OTHER HOUSING DEFICIENCIES. IT SHOULD BE CLARIFIED THAT THE PRECEDING SENTENCE ILLUSTRATES THE PROBLEMS CONFRONTED BY RURAL BLACKS SINCE HUD CONTENDS THAT RURAL HISPANICS ARE NOT PRESENT IN SUFFICIENT NUMBERS TO PROVIDE A BREAKDOWN INTO FARM/NON-FARM AND THUS ARE NOT DISCUSSED AS A SEPARATE GROUP IN THEIR RESEARCH EFFORTS. IN OUR OPINION, THE NEED AND NOT THE SIZE OF THE RURAL POPULATION SHOULD BE THE DETERMINING FACTOR.

WITHOUT A DOUBT, HISPANIC FARMWORKERS ARE THE WORST HOUSED SEGMENT OF THE ENTIRE HISPANIC POPULATION. FROM A CONGRESSIONALLY MANDATED STUDY YET TO BE RELEASED BY THE U.S. DEPARTMENT OF AGRICULTURE, THIS PICTURE EMERGED:

1. THE NATIONAL UNMET DEMAND FOR MIGRANT HOUSING IS OVER 800,000 UNITS. NEARLY 50% OF THE CAMPS (NATIONALLY) SUBJECT FARMWORKERS TO THE ELEMENT. OVER 60% OF THE CAMP BUILDINGS IN THE CAROLINAS AND TEXAS EXPOSE THEIR OCCUPANTS (BLACKS AND CHICANOS) TO THE ELEMENTS.

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2. OUTSIDE PRIVIES WERE FOUND IN 18% OF ALL THE CAMPS.

3. ONLY 20% OF ALL THE CAMPS OFFERED LAUNDRY FACILITIES.

4. OVER 60% OF THE CAMP BUILDINGS WERE OVERCROWDED BEYOND THEIR LEGAL CAPACITY--DURING THE OFF SEASON WHEN THE SURVEY WAS CONDUCTED.

5. EXCLUDING THE WEST COAST, A FARMWORKER CAN EXPECT NO MORE THAN 75 SQUARE FEET OF TOTAL LIVING SPACE (A ROOM WITH LESS THAN NINE FEET TO A SIDE.)

6. AN AVERAGE WEEKLY RENTAL RATE PER MIGRANT IS $30 OR $120 PER MONTH

THE RURAL HOUSING PROVISIONS IN HR 5731 ARE A POSITIVE STEP TOWARDS ADDRESSING THE HOUSING NEEDS OF RURAL AND FARMWORKER FAMILIES.

IN CLOSING, LET ME AGAIN STATE THAT THE NHHC STRONGLY SUPPORTS HR 5731 AND VIEWS IT AS VEHICLE THROUGH WHICH WE CAN ONCE AGAIN EXPRESS TO ALL AMERICANS THE GOVERNMENT'S COMMITMENT TO DEVELOP AND IMPLEMENT A NATIONAL AND RESPONSIBLE HOUSING POLICY.

THANK YOU FOR YOUR TIME. I WILL BE GLAD TO ANSWER ANY QUESTIONS YOU MAY HAVE.

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Chairman GONZALEZ. Thank you very much, Mr. Martinez, we deeply appreciate your support. It is not only needed but valuable. I believe Mr. Slepin is substituting for Mr. Williams.

Mr. SLEPIN. Yes, I am.

Chairman GONZALEZ. We are going to recognize Ms. Shield at this point, substituting for the executive director of the American Indian National Congress, Mr. Andrade.

STATEMENT OF ROBIN SHIELD, HOUSING COORDINATOR, NATIONAL CONGRESS OF AMERICAN INDIANS

Ms. SHIELD. Thank you, Mr. Chairman. My name is Robin Shield, I am the housing coordinator for the National Congress of American Indians. We want to thank the subcommittee for allowing us to present testimony here today.

NCAI is the oldest and most representative national Indian organization in the country. We represent over 160 Indian tribes and Alaskan native villages, whose combined populations number nearly a half a million people. These people are also the prime recipients of the HUD Indian Housing program.

We are here to express NCAI's wholehearted support for the provision in H.R. 5731 for 4,000 units of Indian housing for next year. We want to commend the cosponsors of the bill for understanding and recognizing the needs of Indian people across the country in supporting continued housing for our people.

We also want to say that we recognize and support and acknowledge the longstanding support the subcommittee has had for Indian people. We are also here to address specific concerns that we have. I will elaborate but I will not be very long in my statement.

First of all, the Housing and Community Development Act of 1977 established a position with HUD entitled special assistant for Indian and Alaskan Native programs. It is a secretarial appointment. However, since the change of administration, there has not been anyone appointed to this position. It has left a gap in the overall coordination of Indian programs by the department. It is an indication to the Indian community that the department does not take its Indian constituency—and thereby, its programs and its position—very seriously.

We have listed in our statement a number of reasons why that position was created in the first place, but I will not elaborate on them here.

We do respectfully request that the subcommittee ask the Secretary of HUD when he intends to appoint this special assistant. I understand the Secretary is to testify tomorrow, so we would make this request to you.

We are also concerned, Mr. Chairman, that the history of HUD's mismanagement of the Indian housing program ever since its inception has had something to do with the administration's decision to terminate the program. We acknowledge that there are serious problems being experienced by IHA's, but we continue to maintain that the problems that they are experiencing today are the result of the years that HUD has not paid proper focus and attention to the providing of training and technical assistance to IHA's and pro-

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viding adequate staff and resources to make sure this technical assistance is carried out.

Plus the fact that it has failed to act quickly on recommendations that have been made over the years by committees and subcommittees of the Congress, by Indian tribes, IHA's, Indian organizations, including the General Accounting Office. We also respectfully request that the subcommittee conduct oversight hearings on HUD's administration of the Indian housing program.

We do want to address ourselves to the President's Housing Commission. We understand it has made specific recommendations concerning housing and concerning Indian housing. We have a specific concern about the concept of the vouchering system. We have two concerns about that. First of all, we have testified before the commission that we do not feel a vouchering system will work on reservations. You need the housing first before you can get the vouchers. We need the housing first. We do not have the supply that it takes for the vouchering system to work.

The second concern we have is the fear that a vouchering system is a method to be used to have Indian people leave the reservation and go into the city so they can use their vouchers because they could not use them on the reservation. That is a very serious concern we have.

Finally, we want to address ourselves to a new piece of legislation that has been introduced by the Interior and Insular Affairs Committee. It is new housing legislation. We want to state for the record that we have only just seen this bill. Although there are concepts in it that we may favor, we have not yet had a chance to study the bill and therefore, a chance to comment on it.

Chairman GONZALEZ. Is that the Udall bill?

Ms. SHIELD. Yes, it is.

Chairman GONZALEZ. Has he introduced it?

Ms. SHIELD. I believe it is in the hopper but I am not sure if it has actually been introduced yet.

Chairman GONZALEZ. I do not think it has.

Ms. SHIELD. My final word is that until all this takes place, until we have had a chance to study this bill and review it and see how they feel about it, we support very strongly H.R. 5731.

[Ms. Shield submitted the prepared statement of Executive Director Ronald P. Andrade, on behalf of the National Congress of American Indians, for inclusion in the record:]

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STATEMENT OF THE NATIONAL CONGRESS OF AMERICAN INDIANS BEFORE THE HOUSE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT AT ITS HEARING ON H.R. 5731, THE HOUSING AND COMMUNITY DEVELOPMENT AMENDMENTS OF 1982, MARCH 25, 1982.

Mr. Chairman and members of the subcommittee. My name is Ronald P. Andrade. I am the Executive Director of the National Congress of American Indians. With me is Ms. Robin Shield of my staff. I want to thank the subcommittee for allowing us to present testimony here today.

NCAI is the oldest and most representative national Indian organization in the country today. Over 160 Indian Tribes and Alaskan Native villages, whose combined populations total approximately half a million people, are members of our organization. We are here to express the National Congress of American Indians' support for H.R. 5731 and appreciation for the provision of 4,000 units of Indian housing for fiscal year 1983.

NCAI recognizes and appreciates the long-standing support this subcommittee has given to Indian and Alaskan Native people so that they might live in decent, safe and sanitary housing. However, we also want to take this opportunity to address issues we are specifically concerned about.

As you know, the Housing and Community Development Act of 1977 established within HUD a Special Assistant for Indian and Alaska Native Programs to be designated by the Secretary. However, since the change in administrations, this position has remained unfilled. Indian and Alaskan Native candidates for the position have been interviewed, but not one has been appointed. Failure to appoint the Special Assistant frustrates Congress's intent. The unwillingness of HUD to appoint the Special Assistant is a clear indication to us of how the Department views the Indian programs it is responsible for. And, the failure to appoint the Special Assistant underscores the reasons why it was found necessary to establish it:

1. Lack of input by the Tribes into HUD's policy- and decision-making process affecting Indian programs.
2. Lack of coordination of the Department's efforts in the area of Indian Affairs.

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3. Lack of visability within the Department of issues and problems Tribes are concerned about, as well as a lack of visability of Indian Affairs in general.
4. Lack of information about and enforcement of the Department's responsibility to Indian and Alaskan Native people with regard to housing.
5. Lack of a knowledgeable and experienced advisor to the Secretary and the entire agency in the area of Indian Affairs.
6. Lack of an Indian or Alaskan Native in a position high enough in HUD to impact on the Department's policies and decisions affecting the Indian programs.

Given the importance of the Special Assistant, we respectfully request the subcommittee to find out from the Secretary of HUD when he will be appointing the Special Assistant.

We are also concerned, Mr. Chairman, that HUD's mismanagement of the Indian Housing Program has had a bearing on the administration's decision to terminate the program. We acknowledge that there are serious problems being experienced by IHAs. But, we continue to maintain that the problems of today are the result of years of HUD's poor administration of the program and its failure to act quickly to implement the many recommendation made over the years by the Tribes, IHAs, Indian organizations, the American Indian Policy Review Commission, and the General Accounting Office.

Finally, we want to address ourselves to the new housing legislation that the Interior and Insular Affairs Committee has put together. NCAI has only just seen this bill. And, although it incorporates many of the concepts Tribes are in favor of for Indian housing, it is still a new bill. The Tribes have not yet had a chance to study it in its entirety and, since hearings have not yet been held, to comment on it. We, therefore, remain very supportive of H.R. 5731.

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Chairman GONZALEZ. Thank you very much, we deeply appreciate that. We will proceed with Mr. Smith.

STATEMENT OF C. O. SMITH, JR., CHAIRMAN OF THE BOARD OF THE MANUFACTURED HOUSING INSTITUTE

Mr. SMITH. Thank you, Mr. Chairman. My name is C. O. Smith, Jr., I am president of C. O. Smith Industries in Atlanta, Ga., a mobile home manufacturer, and chairman of the board of the Manufactured Housing Institute, a national trade association representing individual manufacturers and suppliers and vendors of the manufactured housing industry.

I am pleased to be here today on behalf of the Coordinating Council on Manufactured Housing Finance of which I am vice chairman. Accompanying me today is our Washington counsel, Harvey Weiner, to my immediate right, and MHI president Walter H. Benning on my far right.

The coordinating council has been recently restructured so that the three leading trade associations in our industry, MHI, the National Manufactured Housing Federation, plus the Western Manufactured Housing Institute, are working together in a single organization for the purpose of obtaining improvements in the manufactured home financing and secondary market programs. Together we represent manufacturers, retailers, suppliers, lenders, developers and State trade associations in the manufactured housing industry. I have submitted a written statement to the subcommittee which addresses a broad range of manufactured housing issues raised by the housing proposals. And I have a briefly outlined the coordinating council's position on these issues, so that I may devote most of our time today to discussing our reactions to and concerns with the recent legislative initiatives before this committee.

In addition, with the consent of the committee, I would like to submit at a later time a separate written statement prepared by MHI on the subject of manufactured construction and safety standards on which I had the privilege of addressing this subcommittee last September when the Chair held 2 full days of hearings on this important issue.

With regard to legislative proposals before the committee, our position is summarized on the following points:

Manufactured homes, single and multi-sectional, sold with or without land, financed with either an installment sales contract or a real estate mortgage should be expressly included in any new single or multifamily housing production programs, as well as in any home lending requirement that may be part of an emergency loan or guarantee program for savings institutions;

All real property combination manufactured home and land loans should be made eligible for inclusion in the National Housing Act title II finance programs for homeownership or rental housing development, while preserving the existing title I program as a separate financing option;

FHA negotiated interest rate authority should be made permanent and extended to title I manufactured home loans;

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Title I manufactured home loan insurance authority should be expanded expressly to include previously owned manufactured homes;

The manufactured home finance programs of the FHA and the Government National Mortgage Association and the program to be developed by the Farmers Home Administration should be preserved and protected from future Federal credit program reductions;

With respect to the various housing stimulus programs under consideration, the subsidy should be shallow in order to assist the greatest number of households with the amount of funds available. This can be accomplished effectively by using manufactured homes;

Manufactured housing because of the wide range of prices and options available is the most efficient means of providing the maximum amount of housing assistance to low- and moderate-income individuals without the need for deep interest rate subsidies;

Authority similar to that, which was authorized for the Federal National Mortgage Association, should be granted to the Federal Home Loan Mortgage Corporation for the purchase of manufactured housing personal property loans and credit sale finance instruments;

The subcommittee should urge HUD to deliver its report on manufactured housing sales prices. After reviewing the report, the subcommittee may wish to consider indexing title I FHA manufactured home loan limits to the section 203(b) loan limits in order to provide for automatic adjustments;

State laws which limit or prohibit creditors from entering into or enforcing adjustable rate manufactured housing loans or credit sales, as well as due-on-sales provisions, inhibit housing investment. An alternative adjustment rate Federal lending program should be available to lenders who are restricted by such laws.

As you know, Mr. Chairman, manufactured housing holds an important position in our Nation's housing market. It is in large part due to the efforts of this subcommittee, for which we, in the industry, are grateful. Manufacturered homes today represent over a third of all new single family home sales in this country, and in many areas constitute the only form of affordable homeownership.

Manufactured homes are the vast majority of all homes sold for under $50,000. More importantly, manufactured housing has become a viable answer to the housing needs of many families of modest income, particularly first-time buyers and the elderly. Thus, Mr. Chairman, I think we can all agree that manufactured housing is our Nation's primary affordable housing production program, with very little cost to the taxpayer.

Unfortunately, sky-high interest rates and a lagging economy has stalled our Nation's housing production. Earlier last week you heard testimony on the affect current economic conditions are having on the site-built housing industry. The manufactured housing industry is beginning to feel the impact of high interest rates in a similar way.

Manufactured home shipments have declined nationally over the last 6 months compared to both the last year and the same period in 1979. The effect has not been felt uniformly throughout the Nation. In fact, several States, particularly Texas and Oklahoma,

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have performed relatively well due to the energy boom in that area. Other areas, however, such as the Far West and the Midwestern States have been devastated. In California, for example, sales have declined 25 percent from the same 6-month period last year and 50 percent from the previous year; 9 of the 50 plants in the State closed in the last 6 months.

Ohio's sales were off 40 percent from last year and 54 percent from the year earlier. In Washington and Indiana, the figures are down 38 percent and 37 percent respectively from 1980, and 48 percent and 47 percent respectively from 1979.

Because our industry is so capital-intensive, carrying charges on closed or out-of-business plants are especially draining. More importantly, the resulting job losses can be staggering. I can say from personal experience that having to close a mobile home manufacturing plant is inordinately expensive and very disruptive in the lives of the people who are working there in the plant. We have not had yet to close any in my company so far, but it is quite a possibility if things do not get better.

For these reasons, the coordinating council strongly supports the aim of the various housing stimulus proposals, but we urge that both single and multisectional manufactured homes financed with or without land be included in any such initiatives. We also suggest some other changes, which are more fully detailed in my written statement.

The inclusion of manufactured housing, both with and without land, in any Federal housing production program will provide both substantial job stimulation and affordable homeownership opportunities. For example, on a dollar-for-dollar basis the employment multiplier is higher in the manufactured housing industry than in the site-built industry.

On the average, manufactured homes without land are only 25 to 35 percent as costly as site-built homes with land. This means that for every site-built home that can be produced for a given number of dollars three to four manufactured homes can be built. Thus, while an expenditure for site-built housing creates greater onsite construction employment, similar amounts going for manufactured housing create greater offsite job opportunities both in manufactured housing factory itself, and in similar services such as delivery, site preparation, et cetera.

Also, such expenditures create greater quantities of appliances, fixtures, and furnishings. Using a sales price ratio of 3 to 4 to 1, an equal expenditure on manufactured housing will produce nearly 3 to 4 times as many refrigerators, sets of furnishings, carpeting, drapes, and other housing-related goods.

With regard to affordable housing opportunities, single section and multisection manufactured homes sold without land are an effective means of providing homeownership for families unable to afford homeownership. For example, manufactured homes sold without land may be more appropriate in high land cost areas for people that rent land and in rural areas for those who already own land.

While the financing of manufactured homes as real estate is a recent trend in the housing market, the overwhelming share of

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homes are financed as personal property with a security lien taken on the loan independent of the land to which it may be affixed.

Any legislative housing program which is limited to real property mortgage loans effectively excludes most manufactured homes. Furthermore, for reasons such as affordability, land scarcity, and energy usage, the vast majority of the manufactured homes purchased are single as opposed to multisection homes. Last year single section homes outsold multisection homes by a factor of more than 3 to 1.

Personal property single section manufactured homes also offer a viable low-cost housing component for the stimulus program for families with low incomes who might otherwise be precluded from participating. These factors apply equally to the home loan requirements proposed in H.R. 5568, the Home Mortgage Capital Stability Act sponsored by Chairman St Germain, and the Rental Housing Production and Rehabilitation Act sponsored by you, sir, in H.R. 5731. We urge the inclusion of the manufactured homes in those proposals as well.

In conclusion, I want to thank you, Mr. Chairman and the entire subcommittee, for allowing us to appear here before you on behalf of my company, MHI, and the Coordinating Council on Manufactured Housing Finance. The coordinating council strongly recommends that these proposals include manufactured homes, whether they be financed as real or personal property, without distinction as to the number of modules or the necessity for Federal home mortgage insurance.

We hope that you will give serious consideration to the suggestions made today. Our Washington counsel will be happy to work with the subcommittee staff in perfecting any of these recommendations.

I will be glad to answer any questions you might have.

[Mr. Smith's prepared statement, on behalf of the Coordinating Council on Manufactured Housing Finance, follows:]

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Statement of
C.O. Smith, Jr.
President of C.O. Smith Industries, Inc.
Atlanta, Georgia

for the

Coordinating Council on Manufactured
Housing Finance

Before the

Subcommittee on Housing and Community Development
Committee on Banking, Finance and Urban Affairs

United States House of Representatives

Hearings on

H.R. 5731, the "Housing and Community Development
Amendments of 1982" and related legislative proposals

March 25, 1982

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Mr. Chairman and members of the Subcommittee, my name is C. O. Smith, Jr. I am President of C.O. Smith Industries, Inc. of Atlanta, Georgia, and Chairman of the Board of the Manufactured Housing Institute (MHI), a national trade association representing individual manufacturers and suppliers in the the manufactured housing industry.

I am appearing before you today on behalf of the Coordinating Council on Manufactured Housing Finance (the Coordinating Council), of which I am Vice Chairman. I am accompanied today by Harvey E. Weiner, Washington Counsel to the Coordinating Council.

The Coordinating Council consists of three leading manufactured housing trade associations whose members include manufacturers, retailers, park operators, lenders, developers, and state associations. These three groups have joined together to work more effectively to obtain improvements in both federal and conventional manufactured home finance and secondary market programs. In addition to MHI, the Council's members include the National Manufactured Housing Federation, a group of some 30 state and regional associations of retailers and park owners, and the Western Manufactured Housing Institute, which represents 130 suppliers and 28 manufacturers comprising 65 to 70 percent of manufactured housing shipments in the Western states.

My comments will address the broad range of issues and initiatives which are included in this year's housing hearings as they may affect manufactured housing, including the savings

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and housing industries emergency assistance proposals, housing program reauthorizations, federal preemption of state home finance restrictions and other matters.

Briefly summarized, our views are as follows:

- Manufactured homes, both single- and multi-sectional, sold with or without land, and financed either as real or personal property, should be expressly included in any new single- or multi-family housing production program as well as any housing investment requirement that may be part of an emergency loan or guarantee program for savings institutions.
- All real property combination manufactured home and land loans should be made eligible for inclusion in the National Housing Act Title II finance programs for home ownership or rental housing development.
- Federal Housing Administration (FHA) negotiated interest rate authority should be made permanent and extended to Title I manufactured home loans.
- Title I manufactured home loan insurance authority should be expanded expressly to include previously owned manufactured homes.
- The manufactured home finance programs of the FHA and the Government National Mortgage Association (GNMA), and the program to be developed by the Farmer's Home Administration (FmHA), should be preserved and protected from future federal credit reductions.

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- Authority similar to that which was authorized for the Federal National Mortgage Association (FNMA) in the Housing and Community Development Act of 1980 (P.L. 96-399) should be granted to the Federal Home Loan Mortgage Corporation (FHLMC) for the purchase of manufactured housing personal property loans and credit sale finance instruments.
- The Subcommittee should urge HUD to deliver its report on manufactured housing sales prices. After reviewing the report, the Subcommittee may wish to consider indexing National Housing Act Title I FHA manufactured home loan limits to the Section 203(b) loan limits in order to provide for automatic adjustments.
- State laws which limit or prohibit creditors from entering into or enforcing adjustable rate manufactured housing loans or credit sales as well as due-on-sale provisions inhibit housing investment. An alternative adjustable rate federal lending program should be available to lenders who are restricted by such laws.

MANUFACTURED HOUSING IN TODAY'S HOUSING MARKETPLACE

Before I proceed further, I would like to provide you with an overview of the manufactured housing industry. I believe it is extremely important that the Subcommittee understand the

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prominent position that manufactured housing occupies in the current housing market. For purposes of clarification, the terms "manufactured housing" or "manufactured home" as used in this statement refer to those homes built in conformance to the National Manufactured Home Construction and Safety Standards Act of 1974 (42 U.S.C. §5401 et seq.) (HUD Code). As you will recall, the product name was changed from "mobile home" to "manufactured home" by Congress in the Housing and Community Development Act of 1980.

During 1981, over 240,000 new manufactured homes were sold in the United States; a substantial number of these were in the lower price ranges. Presumably this is because, in these days of very high interest rates, these homes provide the only form of affordable home ownership for many people. It should come as no surprise that manufactured housing today comprises over 80% of all homes sold for less than $40,000 and the vast majority of all homes under $50,000.

Congress has recognized the importance of manufactured housing on numerous occasions in recent years. This Subcommittee and its counterpart in the Senate repeatedly have taken the lead in expanding the range of finance and secondary market programs available to potential manufactured home owners and lenders through the programs of the FHA, FmHA, GNMA and, most recently, FNMA.

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Loan terms under these programs and under conventional finance programs can now extend up to 30 years and, in certain cases of conventional programs, to as long as 40 years. Increasingly, these programs are erasing the distinctions between manufactured home finance and traditional site-built home finance. In this and other areas, manufactured housing is approaching parity with other forms of housing.

Similarly, the old distinctions with respect to the nature of ownership interests and zoning constraints are also breaking down. In many states, when a manufactured home is attached to real estate through some form of permanent foundation, and the home and lot together are owned by the same party, the home is eligible for treatment as real property for taxation, titling and other legal purposes. In virtually all states in the West, this now has been made clear as a matter of specific state law. In the state of California, for example, all manufactured homes are taxed as real estate whether they are on fee owned or leased land.

As a result of these developments, there is a strong movement, particularly in the West, toward the development of manufactured housing subdivisions or tracts. Also, slowly but surely, the use of manufactured housing for city lot infill purposes is expanding.

In addition, the old zoning barriers which effectively have kept manufactured homes off residential lots have begun to

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break down. Legislatures and court cases in Michigan, New Jersey, New Mexico and Vermont have struck down restrictive zoning practices that discriminated against manufactured home owners. Last year, the California legislature enacted far-reaching legislation to require local communities either to permit manufactured homes attached to permanent foundations on any residentially zoned lots or to make reasonable alternative treatment available to manufactured housing (California Senate Bill 1960). This law became effective only last July and the current economic downturn has inhibited its use on any substantial basis.

Despite the promise of these recent developments, in an overwhelming number of cases manufactured housing continues to be sold and financed as it traditionally has been.

HOUSING PRODUCTION INITIATIVES

Several legislative proposals have been introduced in the House and Senate aimed at reviving the deeply depressed housing industry and returning jobs and home ownership opportunities to Americans. The Coordinating Council strongly supports the objective of these initiatives and urges that both single- and multi-sectional manufactured homes, financed with or without land, be included in any such initiatives.

The inclusion of manufactured housing in any legislated housing production programs, such as those sponsored in H.R. 5731, H.R. 5834 or H.R. 5889, particularly when manufactured homes both with and without land are eligible, provides

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substantial job stimulation and affordable home ownership opportunities. Single-section and multi-section manufactured homes sold without land are an effective means of providing home ownership both for families unable to afford land ownership in, for example, high land cost areas and traditional park settings, and for those who may already own land, particularly in rural areas.

While the financing of manufactured homes as real estate is a recent trend in the housing market, the predominant share of manufactured homes are financed as personal property through installment credit sale contracts with a security lien taken on the home, independent of the land to which it may be affixed. Any legislative housing program which is limited to real property mortgage loans effectively excludes most manufactured homes.

Likewise, for reasons such as affordability, land scarcity and energy usage, the vast majority of manufactured homes purchased are single- as opposed to multi-section homes. Last year single-section homes outsold multi-section homes by a factor of more than three to one. Personal property single-section manufactured homes also present a viable low-cost housing component to the stimulus programs for families of lower income who might otherwise be precluded from participating.

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Decline in the Manufactured Housing Industry

The manufactured housing industry is beginning to suffer from the same economic difficulties of recession and high interest rates as the site-built housing industry, resulting in depressed production and elimination of jobs. For example, total manufactured home shipments for the most recent six-month period for which data is available (August, 1981 through January, 1982) have declined approximately 6% from the same period of the prior year and 19% from the same period two years earlier. In fact, were it not for isolated demand in the energy-boom states of Texas and Oklahoma, which together accounted for 22.1% of all manufactured home shipments during this six-month period, the decline in shipments would be substantially more dramatic.

If the data for Texas and Oklahoma were deleted from total shipments for the six-month periods of each of the pest three years, the shipments for the most recent six-month period would be off 12% from the same period one year earlier and off 28% from the period two years earlier. The reason for the significant change is that the states of Texas and Oklahoma accounted for only 12% of shipments for the same six-month period in 1979 and only 16.3% of shipments during the same six-month period in 1980.

The impact of the recession on the industry can be illustrated more dramatically by the fact that, in some states and regions of the country, the recent decline in the

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manufactured housing industry has been far more severe than national figures indicate. For example, in the states of California and Washington in the West and in Ohio and Indiana in the Mid-West (all four states are among the fifteen leading manufactured home states by shipments), we can see a dramatic decline in shipments over the past several years.

For the six-month period described above, manufactured home shipments have declined from the same six-month period of the prior year by the following percentages: California, 24.9%; Washington, 38%; Indiana, 37.3%; and Ohio, 39.7%. From that same period two years earlier, shipments in these four states were off by the following percentages: California, 49.1%; Washington, 47.8%; Indiana, 46.9%; and Ohio, 53.8%.

Job Production

Losses in shipments and production have naturally led to factory slowdowns and closings and, unfortunately, to significant job losses. Nationally, there have been 30 plant closings during the past six months in the manufactured housing industry. Nine of 50 plants in California have been shut down. It is important to recognize that the carrying costs for closed and idle factories are especially burdensome in these difficult economic times.

While at first glance the employment multiplier in the manufactured housing industry may not appear to be as high as

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in the site-built housing industry, quite the opposite may be true on a dollar-for-dollar basis. Manufactured homes without land on the average sell for approximately 25 to 35 percent of the price of a site-built single-family home with land. This means that for every site-built home that can be produced with a given number of dollars, three to four manufactured homes can be built. Thus, while an expenditure for site-built housing creates greater on-site construction employment, a similar amount spent on manufactured housing will create greater off-site job opportunities both in the manufactured housing factory itself and in ancillary services such as delivery, site preparation and set-up. Also, such expenditures generate greater quantities of appliances, fixtures and furnishings. Using a sales price ratio of three or four to one, equal expenditures on manufactured housing will produce nearly three to four times as many refrigerators, sets of furnishings, carpeting, drapes, and other housing related goods.

Another factor in favor of manufactured housing is that a manufactured home unit transaction is 100% job-producing since the entire product is labor-created. In contrast, in a traditional site-built housing transaction, perhaps ten to twenty percent is attributable to the cost of raw land. Therefore, only 80 to 90 percent of any monies expended on site-built housing produces jobs.

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Specific Comments on Housing Stimulus Legislation

1. Amount and Term of Assistance

H.R. 5731, as an amendment to Section 235(q) of the National Housing Act (Sec. 207 of the Housing and Community Development Act of 1980), would provide payments to approved lenders for a ten-year period on behalf of eligible borrowers of certain home loans in an amount equal to the lesser of between 20 and 25 percent of the borrower's income or the amount required to reduce the interest rate on the home loan to 9 1/2%, or 12% in the case of an eligible manufactured home transaction. The Coordinating Council suggests that the Subcommittee reduce the period and the depth of the interest rate assistance in order to assist a greater number of households and finance a greater number of homes for the funds appropriated. This could be accomplished, at least with respect to manufactured housing, without any substantial increase in the income levels of those who could participate in the program, given the wide range of prices and product choices available in this affordable housing alternative.

2. Manufactured Homes with Real Property Mortgages

It is also ambiguous under this legislation as to whether or not a manufactured home financed with a real property mortgage insured under Section 203(b) of the National Housing Act would be eligible for assistance. If such homes are eligible, it is not clear whether the 9 1/2% interest rate for a real property mortgage or the 12% rate for a Title I

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manufactured home would apply, or which of the two mortgage ceilings is applicable (the FHA Title I limit for manufactured home loans or 82% of the Section 203(b) limit for traditional site-built home mortgages). Manufactured homes financed as condominiums raise a similar question under H.R. 5731. When the manufactured home is secured by a real estate mortgage, whether or not the home is FHA-insured, we urge that owners of manufactured homes be treated in a manner similar to other mortgagors under Section 235(q) or in any other legislation.

3. Loan or Mortgage Insurance Requirements

Section 235(q) and the proposed housing stimulus legislation also would require FHA insurance on all eligible manufactured homes assisted under the program. We recommend that this requirement be removed to the extent that other properties may be financed under the program without government loan or mortgage insurance. However, if assistance is limited to mortgages or loans that are government insured or guaranteed, we suggest that the Veterans Administration (VA) guarantee program should qualify along with FHA insurance programs for manufactured housing.

4. Consumer Safeguards

In adopting Section 501(c) of the Depository Institutions Deregulation and Monetary Control Act of 1980 (P.L. 96-221), Congress has taken steps to provide consumer protections in the area of personal property manufactured home lending. We would

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have no objection to a provision in the housing stimulus legislation which required, as a condition of eligibility for conventional financing, that all such loans financed under the program comply with the Federal Home Loan Bank Board consumer protection regulations issued under the special manufactured housing usury preemption provision of P.L. 96-221. Similar protections are already included in the FHA and VA programs.

5. Lender Approval

Section 235(q) and the proposed legislation require that mortgagees under the program be approved by the Secretary of HUD. It is unclear to us whether lenders who are already FHA-approved under the National Housing Act would automatically qualify. We would recommend that that be the case. We would also urge that a special expedited approval be provided for other lenders in order to provide assistance in the most efficient manner and in the shortest possible time.

6. Manufactured Home Unit Cap

The existing statute restricts, as does the proposed legislation, the amount of assistance which could be extended to manufactured homes to a maximum of 20% of the total number of units assisted. We urge that no such artificial cap be applied to the program. As we understand it, the legislation is intended to infuse funds quickly into the housing market. A unit limitation on manufactured housing would create an unnecessary administrative burden and retard the commitment

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of funds under this program merely for the sake of arbitrarily controlling the level of participation by purchasers and builders of manufactured homes. If the Subcommittee should decide to include such a cap, we urge that it be stated as a percentage of total funding, not of units, and that it be based upon a percentage which more fairly represents the ratio of manufactured homes to the total number of U.S. new housing sales.

EMERGENCY THRIFT ASSISTANCE

For the reasons we outlined previously regarding housing affordability and job stimulation, we urge that both personal property and real estate financed manufactured home loans be expressly included in any financial assistance legislation for federally insured depository institutions, such as that proposed in H.R. 5568, the "Home Mortgage Capital Stability Act," which carries a housing loan or investment requirement. We concur with testimony provided to this Subcommittee earlier by Mr. Coles of the National Savings and Loan League that, to the extent that institutions must reinvest deposits into housing as a condition of federal loan or net worth guarantee assistance, the institutions should have the flexibility to meet the housing credit needs of their communities by making loans for manufactured homes.

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MULTI-FAMILY HOUSING PRODUCTION PROGRAM

The Coordinating Council supports the effort made by H.R. 5731 to replace the expensive Section 8 rental assistance program with an innovative and less costly multi-family construction and rehabilitation program (Title III, Part B, the "Rental Housing Production and Rehabilitation Act of 1982"). We particularly support that part of the bill which provides the ability for state and local governments to fashion individualized projects with the private sector for assistance under this new program.

The rigidity of past rental construction and rehabilitation programs has required subsequent legislative amendments in order to authorize the inclusion of manufactured home rental spaces. These changes were designed to allow local governments in many areas of the country to respond to their communities' needs better and to take advantage of the substantial time and cost savings of using manufactured housing and space rentals as assisted rental units.

Last year, in recognition of the need in some areas of the country for manufactured homes and space rental developments, and of the benefits these homes and projects could bring to federal rental construction and rehabilitation programs, legislation initiated in this Subcommittee amended the Section 8 program to authorize HUD to contract for rental assistance with owners of those types of "units" (Sec. 329H, Omnibus

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Budget Reconciliation Act of 1981, P.L. 97-35). In addition, a tax code amendment in the Economic Recovery Tax Act of 1981 (Sec. 201(h)(3), P.L. 97-34) which provides certain capital cost recovery benefits to investors of rental manufactured homes is further evidence of Congress' recognition that manufactured housing may provide part of the answer to our nation's growing need for affordable rental housing.

In view of the new, more flexible program being proposed as a substitute for Section 8 under H.R. 5731, the Coordinating Council urges that, in keeping with the policy of last year's legislation and with this bill's laudable aim to provide flexibility and local determination, it be made clear that manufactured homes are eligible rental units and that manufactured home space rental developments are eligible projects under Title III, Part B of the bill.

TITLE II FINANCING FOR MANUFACTURED HOMES

The Coordinating Council strongly supports proposals such as S. 1702, which would establish, on a permanent basis, that manufactured housing built in conformance to the HUD Code and affixed to a permanent foundation would be eligible for financing under Section 203(b) of the National Housing Act. Such financing would be in addition to the Title I combination land and home program, and would be on the same terms and conditions as any other form of single-family housing. We

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believe that this is a sound and important step which is clearly justified by the quality of manufactured homes, and we urge enactment of this provision.

It has long perplexed us that used manufactured homes have been eligible for Section 203(b) financing while new manufactured homes, though built in the most modern fashion, have not been. This is an anomaly of the law which we believe has been without justification. While HUD has taken administrative steps to alleviate this situation, which we commend, we believe that such legislation would be extremely useful because it would make clear, once and for all, that manufactured homes are intended by Congress to be eligible for Section 203(b) financing.

NEGOTIATED INTEREST RATES

The Housing and Community Development Act of 1980 authorized limited demonstration authority for negotiated interest rates for the Section 203(b) mortgage insurance program. This authority was extended by the Omnibus Budget Reconciliation Act of 1981. We strongly support the concept of negotiated interest rates. It is our position that competition in the marketplace will serve to regulate interest rates more effectively than will the imposition of artificial rate ceilings by FHA. Presently, when the FHA maximum interest rates are too low, lenders either abandon the FHA market for the conventional market or compensate by increasing seller points. On the other

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hand, when the FHA interest rate has remained high in a falling interest rate market, lenders in the FHA program originate loans at competitive market rates, regardless of their ability to charge a higher FHA rate. We believe that this proves that artificially established FHA interest rate ceilings serve little purpose, and we strongly endorse the concept of negotiated interest rates.

We would like to urge the Subcommittee to consider extending the negotiated interest rate authority to the Title I manufactured home loan insurance program. The same marketplace competitive forces that enable such a program to work with Section 203(b) mortgages act upon the Title I loan market. The introduction of the negotiated interest rate for all FHA insurance programs would be a major step toward deregulation and would appear to be consistent with the goals of the Congress.

EXISTING MANUFACTURED HOME TITLE I LOAN INSURANCE PROGRAM

Current FHA Title I regulations prohibit the insuring of loans for existing manufactured homes unless the homes were previously financed under Title I (24 C.F.R. §201.510). We believe that this regulatory restriction may not be required by the National Housing Act. To remove any possible ambiguity that may exist on this point, however, we urge the Subcommittee to consider an amendment to the National Housing Act

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specifically authorizing Title I insurance on loans for the purchase of existing manufactured homes, regardless of how they were previously financed. This would be consistent with the Subcommittee's efforts to extend and preserve housing credit insurance for needy segments of the market.

Today there is a large stock of quality-built existing manufactured homes. The lack of adequate financing deprives the home owner of the ability to sell his home at a fair price. We believe that this existing stock of affordable housing should be effectively utilized and that steps should be taken to make new means of financing available.

FHA AND GNMA CREDIT CUTBACKS

Because manufactured housing is a major source of affordable housing for first-time home buyers, the elderly and low- to middle-income families, the federal finance programs involved with manufactured housing should be preserved from significant credit cutbacks. Any further efforts to reduce the ceiling on the federal credit programs must ensure that those programs specifically directed toward the most affordable housing options are spared.

The GNMA mortgage-backed securities program provides the only organized secondary market for traditional credit sale-financed personal property manufactured homes. In today's

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mortgage market, few lending institutions are willing to tie up funds in fixed rate long-term loans to be held in their portfolios. In addition, many mortgage bankers -- who have played a major role in financing manufactured homes -- cannot afford to hold loans in their portfolios without the ability to sell them on the secondary market. If the GNMA mortgage-backed securities program did not exist, those lenders not willing or able to hold manufactured housing credit sale instruments in their own portfolios would be driven from the manufactured home finance market. We therefore urge that the FHA manufactured housing insurance program and the GNMA mortgage-backed securities program be insulated against any credit reductions in the Fiscal Year 1983 and subsequent federal budgets.

FHLMC MANUFACTURED HOUSING LOAN PURCHASE AUTHORITY

While the GNMA mortgage-backed securities program has been a highly successful secondary market program for manufactured housing finance instruments, the program is limited to FHA-insured and VA-guaranteed loans and credit sales. Today there is no organized secondary market for conventionally financed manufactured home credit sale instruments. Legislative authority was granted to FNMA in the Housing and Community Developments Act of 1980 to establish such a program. We are working with FNMA and are hopeful that such a program will be forthcoming.

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In recognition of current and proposed federal credit program cutbacks, as well as the desirability of developing greater private housing market programs, the establishment of manufactured home personal property loan purchase programs for the secondary markets takes on added importance. The Coordinating Council therefore recommends that authority similar to that granted to FNMA be granted to the FHLMC for the implementation of a manufactured housing loan and credit sale instrument purchase program.

INDEX FOR FHA TITLE I MANUFACTURED HOME LOAN LIMITS

The Housing and Community Development Act of 1980 established an indexed ceiling for FHA Section 203(b) mortgages. The maximum mortgage amount for a single-family residence is not to exceed $67,500 or, in the discretion of the HUD Secretary, the lesser of 133 1/3% of the basic limit ($89,978) or 95 percent of the area's median home sales price. As a result, FHA Section 203(b) mortgage limits are permitted to follow the housing price trends more closely from area to area without the necessity of returning to the Congress for legislative amendments.

Section 308(e) of the Act mandated the Secretary to report no later than January 1, 1982, on a procedure for collecting and reporting manufactured home sales price data and to report such information on a national, regional and area-wide basis. Since that report has not been delivered, we recommend that the

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Subcommittee urge the Department to complete its study and produce the report at the earliest possible date. Following a review of the HUD report, the Subcommittee may wish to consider the establishment of an index for FHA Title I manufactured home loan limits, keyed to the Section 203(b) mortgage limit, which would allow for automatic adjustments without the need for repeated legislative amendments to the statute.

ADJUSTABLE RATE LENDING PARITY FOR MANUFACTURED HOME LENDERS

The Coordinating Council supports alternative federal lending authority to state laws which limit or prohibit a creditor from entering into and enforcing an adjustable rate real estate or manufactured home purchase loan or credit sale.

Federal savings and loan associations, national banks and national credit unions currently have adjustable rate finance and due-on-sale preemption. Finance companies and mortgage banking companies -- major sources of home purchase funds for the manufactured housing industry -- do not benefit from a similar preemption. Federal regulatory agencies thus have given the federally chartered institutions a great competitive advantage over state-chartered depository institutions and state-licensed finance companies and mortgage banking companies.

With today's volatile interest rates, creditors may be reluctant to lock into long-term fixed-rate investments (particularly without authority to enforce due-on-sale provisions). Preemption is a valuable tool which should be

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extended to all creditors so that they have the flexibility to adjust their portfolios to fluctuating interest rates and secondary market yield demands.

Authority for adjustable rate finance instruments should also be granted to the FHA and the VA for both their real estate and manufactured home loan programs.

CONCLUSION

In conclusion, I want to thank you, Mr. Chairman, and the entire Subcommittee for allowing me the opportunity to appear before you today on behalf of the Manufactured Housing Institute and the Coordinating Council on Manufactured Housing Finance to testify on these important and innovative housing proposals. Again, the Coordinating Council strongly recommends that these proposals include manufactured homes, whether financed as real or personal property, and without distinction as to the number of modules or the necessity for federal loan or mortgage insurance.

We hope that you will give serious consideration to our suggestions. I would be pleased to answer any questions you might have, and our Washington counsel would be happy to work with the Subcommittee staff in perfecting any of the recommendations we have made today.

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Chairman GONZALEZ. Thank you very much.

I can assure you that we are giving very serious consideration to some of these suggestions.

We are going to proceed and recognize Mr. Slepin.

STATEMENT OF MATTHEW B. SLEPIN, DIRECTOR FOR HOUSING DEVELOPMENT, COOPERATIVE LEAGUE OF THE U.S.A.

Mr. SLEPIN. Thank you very much, Mr. Chairman.

My name is Matt Slepin. I am the director for housing development for the Cooperative League of the U.S.A. Morgan Williams apologizes for not being able to be here today. I will summarize my testimony.

The Cooperative League was founded in 1916. It is a national membership and trade association for all kinds of cooperatives. Our membership includes America's farm supply, farm marketing, housing, rural electric and telephone, credit unions, food, health care and other types of cooperatives. Together our cooperatives serve 40 million Americans of every race, age, income, class and ethnic group residing in all 50 States. We believe that the co-op way of doing business is a good way of doing business.

Our economy is in a state of rapid change. In particular, the changing role of Government, financial institutions, the homebuilding industry and the needs and preferences of American families have demanded timely adaptation by the housing industry.

During this period of change and into the future, we feel that cooperatives will have an important and unique role to play, particularly in the housing sector. Innovative financing techniques and the benefits accrued through resident ownership and control have combined to make cooperative housing an increasingly popular alternative to both rental and condominium housing throughout the country.

For example, housing cooperatives are becoming a preferred option for the elderly. They offer senior citizens a chance to move into attractive communities in which they continue to be important and participating citizens. This is also seen as an innovative way of resolving the problem of empty nesters.

Local communities view cooperatives as an alternative to low-income rental and public housing that has satisfied staunch critics of assisted housing programs. Self-help and sweat equity housing is also being developed in rural areas and on college campuses—two areas in which we expect to see a lot of new cooperative activity.

Probably the major area of cooperative housing activity has been and will continue to be in the conversion of rental property to cooperative ownership. Through innovative financing techniques, a high percentage of current residents can afford to stay in their homes and become cooperative homeowners at favorable interest rates without subsidy.

Another area of cooperative activity has been the development of leasing cooperatives. In a leaseback arrangement, the property itself is actually owned by a limited partnership as rental housing.

This arrangement partially solves one of the major drawbacks of low-income cooperatives, the lack of capital. In effect, the cooperative members trade off their homeowners tax deductions for an

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inflow of capital from the partnership. This type of arrangement has allowed groups to purchase property that they would have otherwise not had the cash to afford. It is an intermediate step between rental and ownership that can serve as a critical bridge enabling renters to become cooperative homeowners.

Mr. Chairman, I am pleased that H.R. 5731 does address many of the needs of housing cooperatives. I would like to express our support for the provisions of H.R. 5731 that do meet these needs.

Several minor modifications to this legislation and to existing law are needed for these programs to work effectively for housing cooperatives. H.R. 5737 relies upon the FHA 203(n) program as the vehicle for cooperative share financing under a revitalized 235 homeownership program. Several technical changes to the 203(n) statute are required.

As you may be aware, 203(n) was passed by Congress in 1974 as the first Federal step to promote cooperative share financing. To date, not one 203(n) loan has been insured. A major problem in our view has been the lack of understanding of cooperative share financing. This is reflected in the original 203(n) legislation, a major reason why the Department of Housing and Urban Development has been unable to issue workable regulations for the program.

Our suggested revisions are included in the written testimony. I will be glad to work with the subcommittee staff on specific language to address these problems.

Several other sections of H.R. 5731 require clarification. Part B, the multifamily housing production program, includes cooperatives as well as rental projects as eligible for the interest reduction loan. There is a stipulation that cooperatives be owned by "limited dividend corporations, private nonprofit corporations, or other nonprofit corporations or limited dividend entities eligible under section 221(e)(3) or (e) of the National Housing Act."

Few housing cooperatives, including limited equity cooperatives, are incorporated as nonprofits or limited dividend corporations. As noted above, cooperatives are generally incorporated under the business code as regular corporations. Hence this requirement should be taken out.

It is our view, however, that subsidized cooperatives should have a mechanism to insure affordability by the original income population over time. This is generally accomplished through either limitation on the price of membership resale or requiring that incoming members be of a certain income level.

The statute, however, is not an appropriate place to specify such requirements. HUD, in issuing regulations, must meet all statutory requirements. To carry out this mandate, HUD would place appropriate restrictions on the cooperative through its occupancy and regulatory agreements.

We also have some questions as to the use of the emergency mortgage relief program in cooperatives. The program does specify in the eligibility section that the property securing the mortgage could include a security interest in a cooperative. It is my assumption in reading the legislation that this would apply to payments on cooperative share loans. My question is whether or not this would also assist a cooperative member in paying monthly carrying charges to the cooperative.

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The greatest need for this program will not be in cooperatives whose members have taken out loans to assist in the purchase of shares. Rather, the need will be in those cooperatives whose members own their shares outright but cannot afford to pay their monthly carrying charges to the cooperative. We recommend that this section of H.R. 5731 be clarified to specifically allow this type of assistance to cooperative homeowners.

My final comments concern the so-called voucher or existing section 8 program. It appears that this program will be a major focus of this year's housing bill. Certainly, the use of such assistance should be available for members or potential members of housing cooperatives. If the statute is restricted to rental type housing, the assistance should only be used in cooperatives to pay monthly carrying charges. It would be up to the individual certificate holder to come up with the cash required for the purchase of the cooperative share.

If, on the other hand, the program was generally available for homeownership, certificate payments should be available to help pay for the membership fee and the financing thereof, as well as monthly cooperative fees.

I do thank you for the opportunity to testify this afternoon. Cooperatives are a housing alternative that meet many of the needs of the 1980's. With some of the modifications that I have suggested in my testimony, HUD/FHA programs will be better suited for cooperative housing.

I will be glad to answer any questions or supply more detailed information.

[Mr. Slepin submitted the prepared statement of President E. Morgan Williams, on behalf of the Cooperative League of the U.S.A., for inclusion in the record:]

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U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

March 25, 1982

STATEMENT OF E. MORGAN WILLIAMS

PRESIDENT OF THE COOPERATIVE LEAGUE OF THE USA

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Mr. Chairman, members of the Subcommittee. I welcome this opportunity to present testimony on behalf of the Cooperative League of the USA concerning the FY 1983 housing and community development authorizations.

The Cooperative League, founded in 1916, is the national membership and trade association for all kinds of cooperatives. Our membership includes America's farm supply, farm marketing, housing, rural electric and telephone, credit, food, student, consumer service, day care, memorial, insurance, health care and other types of cooperatives. Together our cooperatives serve 40 million Americans of every race, age, income class and ethnic group residing in all 50 states. We believe that the co-op way of doing business is a good way to do business.

Our economy is in a state of rapid change. We are all well aware that the various aspects of the economy that affect housing have changed dramatically during the past several years. In particular, the changing role of government, financial institutions, the homebuilding industry and the needs and preferences of American families have demanded timely adaptation by the housing industry. Combined with these rapid changes is an unhealthy economy that has had continued high inflation, interest rates and unemployment.

Steering a course through this period is not an easy job for Congress, the Administration and other national policy makers. You must combine compassion with the need to "tough it out" through to a more healthy and stable economy.

During this period of change and into the future, we feel that cooperatives will have an important and unique role to play, particularly in the housing sector. Innovative financing techniques and the benefits accrued through

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resident ownership and control have combined to make cooperative housing an increasingly popular alternative to both rental and condominium housing throughout the country.

Housing cooperatives are becoming a preferred option for the elderly. They offer senior citizens a chance to move into attractive communities in which they continue to be important and participating citizens. This is also seen as an innovative way of resolving the problem of "empty nesters."

Local communities view cooperatives as an alternative to low income rental and public housing that has satisfied staunch critics of assisted housing programs. The resident ownership nature of cooperatives helps to create a community in which vandalism, crime and the sheer lack of pride so often found in low income housing rarely occurs. Housing cooperatives are also being developed in rural areas and on college campuses -- two areas in which we expect to see a lot of new cooperative activity.

Probably the major area of cooperative housing activity has been and will continue to be in the conversion of rental property to cooperative ownership. Through innovative financing techniques, a high percentage of current residents can afford to remain in their homes and become cooperative homeowners. The cooperative vehicle enables the assumption of existing rental mortgages, which combined with owner "take-back" and cooperative share financing can offer favorable interest rates without subsidy.

For projects with federal subsidies already in place, limitations on membership equity can ensure continued affordability by low and moderate income residents. The benefits to middle income families and the first time homebuyer are also evident, as lower interest rates enable a higher percentage of resident

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purchases than would be possible in a traditional condominium conversion.

Another area of cooperative activity has been in the development of "leasing cooperatives." In a leaseback arrangement, the property is actually owned by a limited partnership as rental housing. The owners enter into a leasing arrangement with the tenants, in which the partnership continues to receive tax benefits while a tenant cooperative, as a co-managing or general managing partner, has day to day control of the property.

This arrangement partially solves one of the major drawbacks of low income cooperatives — the lack of capital. In effect, the cooperative members trade off their homeowners tax deductions for an inflow of capital from the partnership. In several cases, this type of arrangement has allowed tenant groups to purchase a property that they would not otherwise have had the cash to afford. It is an intermediate step between rental and ownership that can serve as a critical bridge enabling renters to become cooperative homeowners. In most cases, the cooperative has the "right of first refusal" to purchase the property at a future date.

Mr. Chairman, H.R. 5731 does address many of the needs of housing cooperatives in today's market. We are pleased that the legislation recognizes the distinction between cooperative share financing and cooperative blanket, or project, financing.

There are several minor modifications to this legislation and to existing law that should be made for these programs to work effectively for housing cooperatives. The legislation relies upon the FHA 203(n) program as the vehicle for cooperative share financing under a revitalized 235 homeownership program. Several technical changes to the 203(n) statute are required to make

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it a workable program.

As you may be aware, 203(n) was passed by Congress in 1974 as the first federal step to promote cooperative share financing. Since that time, this Committee has approved share financing programs for the Federal Home Loan Bank Board, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association and the National Credit Union Administration.

To date, not one 203(n) loan has been insured, nor have any of the financial institutions created a meaningful program to utilize their cooperative share loan authority. I should note that FNMA is in the process of developing its program and is currently purchasing share loans on a negotiated basis. This is a development that we note with great interest and are working closely with FNMA to develop a nationwide program. The Mortgage Corporation has begun development of their program, but cannot utilize their authority until technical tax legislation is passed by Congress.

In many ways, this has been a chicken and egg problem. Nevertheless, we are sure that the demand for it exists around the country. The major problem, in our view, has been a lack of understanding of cooperative share financing. This is reflected in the original 203(n) legislation, a major reason why the Department of Housing and Urban Development has been unable to issue workable regulations or instructions for the program.

First, the statute should be amended so that it is not limited to projects in which FHA has insured the blanket mortgage. This requirement results in a situation that makes the terms of the 203(n) loan the least attractive when it is needed the most -- when the project is getting older and the remaining balance on the blanket mortgage is fairly low. In addition, it does not allow

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members of conventionally financed cooperatives to utilize FHA loan insurance in the purchase of membership shares.

The requirement that the amount of the 203(n) loan should be reduced by the unpaid balance of the blanket mortgage attributable to the unit should be taken out. This requirement is unnecessary and will serve to drive up the appraised value of the unit, rather than protect FHA as the insurer. Also, the term "first lien" under subsection (A) should be taken out. This is a real estate term, which does not readily apply to cooperative share financing. Legally, a cooperative share is personal, not real property. Finally, the requirement that the cooperative be a "non-profit" corporation should also be taken out. Many bona fide cooperatives are not incorporated as non-profits, but are incorporated as regular corporations.

These changes in the 203(n) statute should enable HUD to issue regulations and a program handbook that will finally result in 203(n) loan activity. In addition, if H.R. 5731 is passed, 203(n) can be used as an effective vehicle for the 235 homeownership subsidy in housing cooperatives.

Several other sections of H.R. 5731 require clarification. Part B, the Multi-family Housing Production Program, includes cooperatives as well as rental projects as eligible for the interest reduction loan. There is a stipulation that cooperatives be owned by "limited dividend corporations, private non-profit corporations, or other non-profit corporations or limited dividend entities eligible under section 221 (d)(3) or (e) of the National Housing Act." Few housing cooperatives, including "limited equity" cooperatives are incorporated as non-profits or limited dividend corporations. As noted above, cooperatives are generally incorporated under the business code as regular corporations.

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It is our view that subsidized cooperatives should have a mechanism to ensure affordability by the original income population over time. This is generally accomplished through either limitation on the price of membership resale or requiring that incoming members be of a certain income level. The statute, however, is not the appropriate place to specify such requirements. HUD, in issuing regulations, must meet all statutory requirements which in this case is to provide housing for low and moderate income families for a period of fifteen years. To carry out this mandate, HUD would place appropriate restrictions on the cooperative through its occupancy and regulatory agreements.

We also have some questions as to use of the Emergency Mortgage Relief program in cooperatives. The program does specify, in the eligibility section, that the property securing the mortgage could include a security interest in a cooperative. It is my assumption, in reading the legislation, that this would apply to payments on cooperative share loans. My question is whether or not this would also assist a cooperative member in paying monthly carrying charges to the cooperative.

The greatest need for this program will not be in cooperatives whose members have taken out loans to assist in the purchase of shares. Rather, the need will be in those cooperatives whose members own their shares outright but cannot afford, due to unemployment, to pay their monthly carrying charges to the cooperative. We recommend that this section of H.R. 5731 be clarified to allow this type of assistance to cooperative homeowners.

My final comments concern the so-called "voucher" or existing Section 8 program. It appears that this program will be a major focus of this year's housing bill. Certainly, the use of such assistance should be available for members or

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potential members of housing cooperatives. If the statute is restricted to rental type housing, the assistance should only be used in cooperatives to pay monthly carrying charges. It would be up to the individual certificate holder to come up with the cash required for the purchase of the cooperative share. If, on the other hand, the program was generally available for homeownership, certificate payments should be available to help pay for the membership fee and the financing thereof as well as monthly cooperative fees.

I do thank you for the opportunity to testify this afternoon. Cooperatives are a housing alternative that meet many of the needs of the 80's. With some of the modifications that I suggested in my testimony, HUD/FHA programs will be better suited for cooperative financing. My staff and I would be glad to answer any questions or supply more detailed information at a later date if you so request.

Mr. GONZALEZ. Thank you very much, Mr. Slepin. We are very grateful to those of you who again have come forth.

Of course, I think Mr. Williams has been with us before. As a matter of fact, I think you have, too.

Mr. SLEPIN. I testified last year.

Chairman GONZALEZ. I think the first thing, I am deeply grateful for your support of H.R. 5731, because it is survival legislation, as you can tell. Mr. Martinez, I deeply appreciate your very generous remarks, and I realize that everything you say is absolutely—you expressed my personal position.

I can assure you that if it were my idea, even though the outlook would be pessimistic, I would still insist on it. As a matter of fact, this is what I did last year. But this year we have a chance on substantive legislation. We did not last year, as you know.

What happened was, what we had imposed upon the authorizing committees, substantive legislation committees, the constrictions and mandates, rigorous mandates of the reconciliation process, which for the first time confronted the committees. We do not anticipate that being repeated this year.

So that today these hearings I think are even that much more important, because the Congress cannot escape it this year. Whether it does so affirmatively or negatively, it has to, because the basic assistance housing programs must be extended on a yearly basis. Even though we had that last year, we did so but did so on the main rail of reconciliation, where whatever it was we authorized had to conform to that reconciliation process.

It meant that we were not evaluating on the basis of merit or lack of merit of an individual program, but simply playing arithmetic games. This is what this weary exercise reduced itself to. This is hardly serving the country or the American people.

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This time we have a chance, except that we have to be realistic. We were able to get a consensus with the majority; we have every single member of the majority side of the subcommittee endorsing and cosponsoring this bill, H.R. 5731.

But we can go at it only on the basis of that which was feasible. So we had to work from the standpoint of the closest harmony with the Budget Committee, for example, so that what we came out with in a way was kind of paying a left-handed respect to reconciliation, because we were saying: OK, here is our bill and it comes within the targeted limits of the Budget Committee itself, which in turn are within the limits that the President himself has set.

But the President's budget recommendations as of February 8 obviously call for less—say for example in the case of Indian housing—and as one of the religious leaders said this morning, well, I am afraid insofar as Indian housing is concerned, this administration reenacted the cowboy and Indian game, except of course the cowboy always wins. The thing that frightens me is that our President is a cowboy, and there is no question in my mind that the only reason we would be in conformity with the reasons they give in the other housing programs for, say, wanting to dismantle would be to privatize it, turn it over to the private sector.

But I think it is a case of a dumb cowboy that has not bothered to know how Indians live and therefore does not realize that unless they want to undo the Indian reservation program and take the last vestiges of the land, there is no way that they can privatize it as far as land ownership is concerned, which is the main ingredient in any housing program.

So I do not know what else it can be other than just an abominable, callous disregard of the basic needs of the Indian population.

So what we have is actually minimal and not what I want. If I had my druthers, even a losing fight, I would insist on more than we are authorizing in H.R. 5731, because I feel that that is the only way that we can reflect the national need we have established through exhaustive hearings last year and field visits from one State to the other.

It is not ideological in the sense that we are boxed into upholding programs that we have been for all along. It is that this is what we hear from the witnesses, this is the testimony. This is the cry that we hear from the land and the people. We are here because we are supposed to be representing the people, not ideologies and concepts.

In the case of manufactured housing, for example, we think that some of your recommendations are worthy, at least I do. So we are going to take it up with the staff and some of the other members to make sure we anchor down, for example, that it is made clear that section 209(h), I believe, of the Reconciliation Act and what appears to be our intention to include manufactured housing is indeed clarified insofar as rental situations are concerned.

Mr. SMITH. Thank you very much.

Chairman GONZALEZ. Yes, sir, I think that is very important and I think it is justifiable.

We just had valuable testimony about the innovation in construction and economy of costs, and the fact that manufactured housing was one big possibility for affordable home construction.

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The dilemma with respect to housing needs is certainly not a substitute for section 8—for example, the fears about the voucher program perhaps, if instituted, causing migration, outmigration of Indian residents—if it is adopted in any shape near what is described at this moment would not work for the simple reason that the Indian resident of the reservation will not have any place to use a voucher, either off or on, because it is not based on providing new housing; it is based on existing housing already occupied by the poor, and where you just do not have available extra housing resources.

But I did want to clarify the fact that in our legislation—and our proposal thus far does not reflect any voucher recommendation.

Mr. SLEPIN. I am aware of that.

Chairman GONZALEZ. You have also raised a very interesting question that I do not really know the answer to since I have discussed this only briefly with the staff.

Mr. SLEPIN. Was this concerning the emergency——

Chairman GONZALEZ. The proviso or section, I think, section 6, title VI.

Mr. SLEPIN. Emergency mortgage relief?

Chairman GONZALEZ. Yes. Would you refine that a little bit?

Mr. SLEPIN. The reason I brought it up is that co-ops are financed in two different ways. The legislation understands it very, very well.

Chairman GONZALEZ. I noticed your records do that, and I appreciate it.

Mr. SLEPIN. The problem in that section, is that it was unclear as to whether or not assistance under that section would be available just for payments on cooperative share loans or available to assist members of cooperatives to pay their monthly carrying charges to the co-op. If the share price is only $500, the need for assistance is to pay monthly carrying charges. Without such assistance, there is the danger—in areas of high unemployment—that a cooperative might default on its blanket mortgage. Somehow this assistance should be available to members of those cooperatives.

Chairman GONZALEZ. All right, sir. Well, we may have and if necessary, I am sure, the staff counsel will call you if we need clarification and if there is any possibility of a misinterpretation of the impact of our wording.

Mr. Martinez, did you want to say something?

Mr. MARTINEZ. During these times it is hard not to say anything.

First of all, I wanted to say that what was produced as a result of H.R. 5731 I think is a direct reflection of your leadership capability as the Chair of this committee.

Second, Mr. Chairman, I would like to assure you that the advocacy and the articulation of what needs to be done will not stop here as far as the National Hispanic Housing Association is concerned.

Chairman GONZALEZ. Well, thank you very much.

At my urging a few years ago a so-called Congressional Spanish Caucus expanded on my urging to invite—you know, there are only four of us, and I said what can four do? We can even meet in a telephone booth. So what we had to do——

Mr. MARTINEZ. Superman met in a telephone booth.

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Chairman GONZALEZ. What we had to do was find some way to expand the base of concern and commitment. I said why do we not try to figure out how many members are here that have at least 10-percent constituencies that were Spanish speaking. We found that that ran somewhere 130, so that your influence could be great if for some reason you do try to penetrate the level of consciousness, so we do appeal to you.

In the case of the Indians, Ms. Shield, I do not have to tell you it is a minority within a minority within a minority, and it is reflected in our process of government by pressure groups. I just cannot tell you how personally distraught I have been.

I wanted to ask you now if Mr. Udall has introduced the bill. As I understand, one of the main thrusts was to take away from HUD the jurisdiction the Indian housing assistance program and place it in I believe the Bureau of Indian Affairs.

Now, I have not seen the bill. The reason is I do not think it has been introduced. I think if it has it might have been referred to some other committee, maybe his own on Interior, but it certainly has not been referred to us. I would have known about it.

Ms. SHIELD. That is true.

Chairman GONZALEZ. But anyway, what I needed to know was if you would be willing to ascertain the status of that and let us know, even though I intend to call Mr. Udall. It may be that you can more readily find out if he has indeed introduced the bill. I could not trace it the other day because that issue was raised by Mr., was it Cleveland?

Ms. SHIELD. Cleveland.

Chairman GONZALEZ. Yes. Just the other day. So I do appreciate your point-by-point suggestions.

And with respect to manufactured housing, you had more than that one thing that I was concerned about, and it had to do with section 8 in part 3 of the bill.

Well, we want to get together on that and make sure that we get a clear concept that is before us to make sure that we do not, with the best of intentions, overlook something.

Mr. SMITH. We would welcome that opportunity, sir.

Chairman GONZALEZ. We appreciate that. We appreciate your bringing it to our attention.

[Pause.]

Chairman GONZALEZ. Oh, yes. On page 18 where you refer to FHA title I regulations now that prohibit the insuring of loans for existing manufactured homes unless the homes were previously financed under title I, you express the feeling that this is not a regulation or restriction required by the Housing Act, and you are suggesting that we consider an amendment for the National Housing Act to remove this ambiguity.

It may be that a very valuable member of this subcommittee will pursue that, and I am going to bring it to his attention. We must also evaluate whether or not we might, again with the best of intentions, enlarge the possibility of having some resistance to the overall bill if this creates an issue. But that will be very closely evaluated.

[Pause.]

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Chairman GONZALEZ. We certainly are going to take that under consideration. Also, it would be advisable if we sat down and discussed it with the HUD people. Sometimes what can be done through the regulatory process is perhaps more expeditious than trying to get a statutory provision through the long legislative process, but it certainly will be considered very seriously.

Mr. SMITH. There are around 12 million people in this country today living in manufactured homes. That is quite a constituency and the number is growing. We are the most affordable housing for a vast segment of the population, so they do deserve consideration at some point.

Chairman GONZALEZ. Well, thank you again very much.

[The following additional written questions were submitted to Witness C. O. Smith, Jr., and appear with his responses:]

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Answers to Questions by Representative Patterson for the Subcommittee on Housing and Community Development by C.O. Smith, Jr. on Behalf of the Coordinating Council on Manufactured Housing Finance.

Question 1. Comment in general upon H.R.5834, the "Family Housing Production Act of 1982", as you view its effect upon the manufactured housing industry and prospective purchasers of manufactured homes.

Answer to Question 1.

H.R.5834, the "Family Housing Production Act of 1982", deserves praise for its stated intentions to "make home ownership more affordable . . . and . . . increase employment in the housing industry" (128 Cong. Rec. H.849, daily ed. March 15, 1982) (remarks of Rep. Patterson). However, in its present form, H.R.5834 would impose substantial limitations on the participation of the most affordable form of housing -- manufactured homes -- as well as on the thousands of direct and indirect job opportunities which are created by the substantial employment multiplier in the manufactured housing industry (Hearings on H.R.5834 before the Subcommittee on Housing of the House Committee on Banking, Finance and Urban Affairs, 97th Congress, March 25, 1982 (Statement of C.O. Smith, Jr., pp. 4, 9-10)).

H.R.5834 limits the eligibility of purchasers of manufactured homes by requiring that the homes be multi-sectional, FHA-insured under Title I of the National Housing Act and financed with land. In addition, no more than 20 percent of the total units for which assistance may be provided under the bill may be manufactured homes.

We estimate that well in excess of 95 percent of the total number of manufactured home purchasers would be ineligible for financial assistance under the requirements of H.R.5834 (Id., pp. 7-8). As a result, the assistance provided under the bill would have no significant impact upon the manufactured housing industry; nor would it be likely that this proposed legislation would provide any meaningful benefit to the overwhelming number of potential manufactured home purchasers. In addition, since virtually all of the subsidy under the program would flow to purchasers of site-built homes, manufactured homes financed at prevailing unsubsidized interest rates would be placed at a competitive disadvantage.

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Question 2. Outline any specific reactions and recommendations you might have concerning the individual provisions of H.R.5834, particularly: the form of assistance provided; eligibility requirements for borrowers, lenders and properties; the "growing equity mortgage" feature; and any other aspects of the bill which, in your judgment, work to the advantage or disadvantage of manufactured homes.

Answer to Question 2.

Form of Assistance

H.R.5834 would provide, on behalf of qualified borrowers, payments to lenders over a five-year period equaling the lesser of the amount required to reduce the interest rate to 10 percent (12 percent in the case of manufactured home loans) or the amount required to reduce the interest rate by four percentage points, as long as at least 25 percent of the borrower's income is applied toward mortgage or loan payments. This subsidy would be recaptured upon the disposition of the home. The Coordinating Council endorses the limitation in H.R.5834 on the total amount of subsidy provided per home. We also support the recapture provision, which imposes a conditional obligation to repay the government subsidy and thereby refunds much of the cost of assistance to the Treasury. From the perspective of manufactured homes, the amount of subsidy could perhaps be even further reduced in order to assist a greater number of households and finance a greater number of homes for the funds appropriated. This could be accomplished, at least with respect to manufactured housing, without any substantial increase in the income levels of those who could participate in the program, given the wide range of prices and product choices available in this affordable housing alternative.

Eligible Manufactured Homes

As stated in our response to Question 1 above, assistance to purchasers of manufactured homes under H.R.5834 would be limited severely by the requirements that the homes be multi-sectional, FHA Title I insured and financed with a lot. We will address each of these individually:

1. Multi-section requirement

H.R.5834 excludes single-section manufactured homes.

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Nationally, 76 percent of all new manufactured homes sold in 1981 were single-section units. Single-section manufactured homes sell, on the average, for 60 percent of the price of multi-section homes. They also use less energy and are less costly to maintain. They are more practical and affordable for many households including, for example, single person elderly households. Single-section homes also allow for more efficient land usage, especially in high land cost areas where greater densities (dwelling units per acre) are desired. The Coordinating Council therefore recommends that single-section manufactured homes be eligible for financing under H.R.5834.

2. Lot purchase requirement

H.R.5834 provides that manufactured homes may be eligible for purchase assistance under the program only if they are financed in combination with land.

While the financing of manufactured homes with land as real estate is a recent trend in the housing market, the predominant share of manufactured homes are financed without land, as personal property through installment credit sale contracts with a security lien taken on the homes, independent of the land to which they may be affixed. According to a recent report by Prof. Thomas E. Nutt-Powell, over three-quarters of all manufactured home lots are rented (T. Nutt-Powell, Manufactured Homes, Making Sense of a Housing Opportunity (1982) (Auburn House). Therefore, any legislative housing program which is limited to manufactured homes in combination with lots effectively excludes most manufactured homes.

While there may be certain advantages to the acquisition of a lot with the purchase of a manufactured home, the increase to the total cost of acquisition may range from 25 to 100 percent or more. Obviously, the higher the cost of land, the greater the number of potential purchasers likely to be excluded from the program.

Requiring that manufactured homes be financed with lots under the program would, in our judgment, tend to exclude the following categories of households:

- households who may or may not live in a manufactured home but presently own the land on which they would place a new manufactured home (more typically in rural areas);

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- households who presently own an older manufactured home on rented real property and wish to upgrade by purchasing a new home for that site;

- households who presently own an older manufactured home on rented real property and wish to relocate to another manufactured home rental community which will accept only new manufactured homes (this is usually the case, as we understand it, with newly developed manufactured home rental communities); and

- households who simply wish to move to a manufactured home and may not choose to acquire or be able to afford the acquisition of a lot.

The Coordinating Council recommends that the financing of manufactured homes with lots as real estate be included in any Federal financing initiative and be encouraged whenever possible. However, because the vast majority of manufactured home purchases -- for a var ety of reasons, mostly relating to availability and affordability -- do not include lots, we urge that combination manufactured home and lot packages be included, but not required, as part of H.R.5834 or any other financial assistance program for homebuyers.

3. FHA Title I insurance requirement

H.R.5834 limits assistance to the purchase of manufactured homes which are FHA Title I insured. We recommend that this requirement be removed if other types of properties can be financed under the program without government loan or mortgage insurance. At a minimum, if assistance is limited to government-backed mortgages or loans, we suggest that the Veterans Administration (VA) guarantee programs should be added to the FHA insurance programs for manufactured housing.

In addition, it is ambiguous as to whether or not a manufactured home with land financed with a real property mortgage insured under Section 203(b) of the National Housing Act would be eligible for assistance under the bill. If such homes were eligible, it is not clear whether the 10 percent interest rate for a real property mortgage or the 12 percent rate for a Title I manufactured home would apply or which of the two purchase price limitations would be applicable (the FHA Title I limit for manufactured home loans or

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90 percent of the average single-family area sales price for traditional site-built homes). Manufactured homes financed as condominiums raise a similar question under H R.5834 When the manufactured home is secured by a real estate mortgage, whether or not the loan is FHA-insured, we urge that owners of manufactured homes be treated in a manner similar to other mortgagors under the bill.

Manufactured Home Unit Cap

H.R.5834 restricts the number of manufactured home units to be assisted under the program to no more than 20 percent of the total number of units assisted. We urge that no such artificial cap be applied to the program. As we understand it, the legislation is intended to infuse funds quickly into the housing market A unit limitation on manufactured housing would create an unnecessary administrative burden and retard the commitment of funds under this program merely for the sake of arbitrarily controlling the level of participation by purchasers and builders of manufactured homes. If H.R.5834 does include such a cap, we urge that it be stated as a percentage of total funding, not of units, and that it be based upon a percentage which more fairly represents the ratio of manufactured homes to the total number of U.S. new housing sales.

Growing Equity Mortgage Feature

H R 5834 provides that purchasers, other than purchasers of manufactured homes, shall have a mortgage which is financed on a fixed rate adjustable payment basis, with payment increases being applied to retire the principal loan balance (growing equity mortgage or GEM). The Coordinating Council believes that there are several advantages to a GEM which, in our preliminary judgment, can be applied to the traditional personal property manufactured home lending instrument, i.e., an installment sales contract.

In general, a GEM helps to increase the borrower's equity in the home and reduce the term of the purchase loan substantially As a result, the borrower gains increased equity in the property in a shorter time This will work as an incentive to maintaining the collateral and should decrease the overall default rate under the program. In addition, there are some savings to the government in the amount of reduced assistance payments which decline over the five-year subsidy period.

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In our view, there can be other advantages to either a GEM or, in the case of personal property financed manufactured homes, a growing equity loan or credit sale. The shorter amortization of the loan should provide greater liquidity and reinvestment possibilities for lenders. In addition, there would be no negative amortization and the ratio of taxable interest income to the total payment received by the lender would be lower. This would improve the lender's cash flow and result in a faster payback of capital as well as higher after-tax earnings.

From the borrower's standpoint, the program provides payment certainty in that, unlike many other types of adjustable payment mortgage or loan programs, the borrower knows from the start by how much and when payments will be graduated. The part of the payment going toward principal amortization is, of course, not deductible from the borrower's income for tax purposes but, in exchange, equity is built and the indebtedness is retired much earlier.

Lender Approval

Finally, as we commented in our prepared statement (Id.), with regard to section 235(q) of the National Housing Act, H.R.5834 would require that lenders be approved by HUD. It is unclear to us whether lenders who are already FHA-approved would automatically qualify. We recommend that this be the case. We also urge that the bill provide for a special expedited approval for other lenders in order to provide assistance in the most efficient manner and in the shortest possible time.

Conclusion

In conclusion, the Coordinating Council strongly recommends that H.R.5834 be revised to include manufactured homes, whether financed as real or personal property, with or without lots, and without distinction as to the number of modules or the necessity for federal loan or mortgage insurance.

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Answers by C.O. Smith, Jr. on behalf of the Coordinating Council on Manufactured Housing Finance to questions by the House Subcommittee on Housing and Community Development for the Subcommittee hearing record on H.R. 5731 and related matters.

Question 1: Mr. Smith, in your testimony you recommended that new manufactured homes be made eligible for inclusion under the FHA single-family mortgage insurance program, principally section 203(b) of Title II of the National Housing Act. You also urged the retention of the FHA manufactured home loan insurance program under Title I of the National Housing Act. Please explain why you believe that both programs are necessary.

Answer to Question 1: In our testimony, we have recommended that new manufactured homes which conform to the National Manufactured Housing Construction and Safety Standards Act of 1974 be made eligible for FHA mortgage insurance under Title II of the National Housing Act when financed with a lot. Presently, new manufactured homes must comply with the FHA minimum property standards for conventional housing under FHA's Title II mortgage insurance programs including section 203(b) single family, section 234 condominium, and section 213 cooperative housing. If our recommendation is adopted, HUD-Code manufactured home and land financing would qualify under both Title I and Title II of the National Housing Act.

There are several important reasons why inclusion in both programs is both desirable and necessary. While there are a number of key advantages to Title II financing, the Title I program contains many important benefits particularly from the point of view of cost and administrative efficiency. For example, under the Title I program, underwriting and processing are delegated to the lenders. This avoids costly paperwork and reduces substantially FHA's administrative expense and involvement. Lenders prepare and package the loan documents which are forwarded to HUD. The loans automatically become FHA-insured without the need for HUD processing.

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Title I is a coinsurance program where lenders share the risk of loss with FHA. By contrast, Title II insurance covers the full amount of the mortgage loan against loss. By statute, on a Title I insured loan or advance of credit, lenders must bear 10 percent of the risk of loss. FHA also establishes an insurance reserve account under the Title I program for each lender which provides for a maximum loss coverage. This helps to further protect FHA against loss and provides additional incentives for prudent underwriting by lenders Finally, under Title I, FHA receives a larger insurance premium and the lender handles the sale of a repossessed home thereby eliminating still another administrative burden for FHA. Title II insurance, on the other hand, allows for a higher loan to value ratio (i.e., lower down payment requirements) and higher loan ceilings. While Title I is a viable program with a proven interest by lenders, there is a broader spectrum of lenders and land development options available under the Title II financing program. Perhaps most importantly, secondary market access (e.g., the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation) is broader with Title II insurance.

However, since Title II is a real estate only program, a manufactured home and land package which is mixed personalty and realty can qualify only for Title I insurance In some states manufactured homes even when affixed to a permanent foundation may not be considered to be real estate For example in Mississippi, which by law precludes manufactured homes from becoming realty, Title I is the only FHA option for a combination manufactured home and land. The Title I option may also provide a more affordable housing alternative in that the added expenses of erecting permanent foundations, site improvements and landscaping that usually are involved in making manufactured homes real estate may not be necessary. Title I has no specific site development requirements. This can provide a substantial affordability advantage, particularly for buyers in rural areas where the real estate requirements of Title II may be either unnecessary or more costly to meet.

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Eligibility for Title II financing becomes increasingly important as HUD-Code manufactured housing development expands in the same form as traditional single- and multi-family real property development, such as subdivisions, planned unit developments, condominiums and cooperatives. For the most part, however, manufactured home and land packages continue to be sold in the more traditional way with the manufactured home financed as personalty. For this segment of the market, Title I is the only available housing credit program.

In conclusion, both Title I and Title II FHA insurance programs are important financing tools for sellers and purchasers of manufactured home and lot packages. Each program is designed to address a different form of loan transaction, with Title I serving the more traditional financing transactions and Title II directed more toward the real estate manufactured home and land developments. The Coordinating Council therefore urges that the Title I manufactured home and lot program be retained and that the Title II program be made more fully available to HUD-Code manufactured home and land financing.

Question 2: Could you tell us how the FHA Title I manufactured home loan insurance program is working from the industry's perspective?

Answer to Question 2: The FHA Title I manufactured home loan program is a most important one for the industry. It is working reasonably well, although improvements to it are both feasible and desirable. The Title I program is an actuarially sound and self-sustaining manufactured home financing program which benefits every sector of the manufactured home industry: the manufacturer, the dealer, the lender, and the home purchaser.

The benefits to the borrower of such a program, especially in today's market, are clear. The Title I program provides home buyers with readily available financing, particularly for first-time borrowers who otherwise may be precluded from home ownership; for example, the program requires only a 5 to 10 percent down payment (depending upon the price and type of home being financed).

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The benefits to lenders involved in Title I are also substantial. As a coinsurance program, it maximizes cost efficiency to both FHA and the lender and minimizes governmental involvement in its day-to-day administration. Title I program administration is delegated in large part to the lender, who remains fully responsible for the prudent underwriting of the borrower's credit, the subsequent servicing of the loan and the repossession and resale of the home if the borrower defaults These same program characteristics translate into benefits for the Federal government in terms of lower cost, more expeditious processing and a minimum risk which is reflected in a lower loss ratio (.34 for single-section homes and .42 for double-section homes) than that experienced with the Title II programs (.53).

The Government National Mortgage Association ("GNMA") manufactured home loan mortgage-backed securities program, through which lenders issue securities guaranteed by GNMA and backed by pools of Title I-insured (and VA-guaranteed) manufactured home loans, currently serves as the only full-scale program for the sale of these loans in the secondary market. I understand however, that additional secondary market instrumentalities such as the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC") are being actively encouraged to develop workable programs for the purchase of these loans, either as whole loans or as participations. The Coordinating Council supports Committee efforts to encourage these developments.

In short, the FHA Title I manufactured home loan program is a vital, well-conceived, actuarially sound and reasonably well-run program. Several improvements to the program would help, however.

First, FHA recently has been considering deviating from the basic statutory philosophy of this coinsurance program by imposing increasing and, we believe, unnecessary restrictions upon lenders who participate in the program and by second-guessing lenders' credit underwriting decisions. A major benefit of this program is that it works well without excessive government interference. The Committee should encourage FHA not to lose sight of this benefit as it revises its program regulations.

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Second, lenders have experienced losses far in excess of those contemplated by the coinsurance feature of the statute due to delays caused by HUD staff shortages and to outmoded FHA regulatory limitations on the rate of interest and the period over which this interest will accrue for claims pending before FHA.

Third, it appears that a statutory amendment may be necessary to encourage FHA to alter its regulations to permit the financing of credit sales for well-built existing manufactured housing, whether or not previously FHA-financed. We strongly support such an amendment.

The National Manufactured Housing Finance Association ("NMHFA"), a national association of lenders who finance the sale of manufactured homes primarily through the use of the Title I program, has proposed to FHA several changes to the Title I program which we support. One of these proposals suggests a change in the interest rate on claims, to eliminate the lender losses discussed above. FHA has received this proposal favorably but has yet to act. Because this proposal will encourage wider lender participation and create more loans to consumers, the Committee should encourage prompt FHA action to remedy this problem.

Fourth, there is a proposed modification to the Title I program itself which would provide an additional secondary market outlet for these loans; the Committee should encourage FHA to make this change. We support this NMHFA proposal that FHA remove from its regulations language which suggests that discounts may not be charged in connection with manufactured home loans which are sold without the use of the GNMA program, either as whole loans or as participations, to investors in the secondary market. This amendment would aid lenders greatly in marketing their manufactured home loans on an individual basis. FHA is receptive to this change, but again has yet to act.

A final area in which improvement is needed is in the manner in which a lender's Title I insurance reserve is automatically reduced. FHA creates an insurance reserve for each Title I lender against which claims paid for defaulted loans are credited. In a carryover from the Title I

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property improvement program upon which the manufactured home program was based, the amount of this reserve is reduced automatically at the rate of 10 percent per year to a minimum level of $15,000. However, the size of today's manufactured home loans and the increased terms of these loans result in a situation in which lenders who have not made any claims against FHA on defaulted loans nevertheless find their insurance reserves unfairly reduced to inadequate levels. FHA is working on this problem and should be encouraged to address it as soon as possible.

In conclusion, the continuation and improvement of the Title I manufactured home loan program is vital to meeting the growing housing needs of the low- to middle-income household, the first-time homebuyer, and the elderly -- those individuals who historically have been the primary purchasers of manufactured homes and thus the primary beneficiaries of the Title I financing program. Private mortgage insurance is not yet widely utilized in this area. Any restrictions to the Title I program for mortgage insurance reduce the incentive of many lenders to extend funds for the purchase of manufactured homes and restrict the access of prospective purchasers to necessary financing. Therefore, in order to continue to serve the housing needs of our communities, it is essential that the Title I program for manufactured home loans be continued and that program improvements be made which encourage increased industry participation.

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Chairman GONZALEZ. Unless any member of the panel has any additional statement or question we will adjourn the subcommittee until next week on Wednesday next at 9:30. And also, Ms. Shield, we will not be having the Secretary tomorrow but a week from today, next Thursday hopefully. He has indicated he will come before us then.

Ms. SHIELD. I must say I was interested to see his name on the agenda, since I recall in a press conference on the bill you had stated you were having problems getting him; so I was really interested to see him there.

Chairman GONZALEZ. Yes. The Secretary has been a little difficult, but, you see, he has his problems. Nevertheless he is the Secretary, and there is no question in my mind that he has ascribed completely to be the executive branch's Office of Budget and Management. Almost every single little thing we add by way of either requests or for modification or something, we cannot get any kind of decision from him unless and until he gets the order from Stockman presumably; so this makes it a little difficult.

I do not know whether it has been different with other administrations. It seems to me it has. But I have not had that kind of dealing before, so I cannot testify. But when we tried to reach him and tried to find out if he could come before us, for example, on the section 202 elderly housing program and once before, he did not seem to indicate any possibility of wanting to do that. I say wanting to do it, not the ability to do it. So that this time, though, he has indicated that he would come.

Now, he had accepted coming in this last Monday, I believe, but Monday is a day of no legislative activity. The next best date was next Thursday.

But I wanted to say that because I thought you had said you thought he was coming tomorrow.

Ms. SHIELD. Yes.

Chairman GONZALEZ. No. The House will not even be in session tomorrow, and the subcommittee will not be having hearings tomorrow. But we will resume next Wednesday. We would on Tuesday except for the fact that the full committee is going to have the Secretary of the Treasury in the morning next Tuesday.

So we thank you once again very much for you time, and the lateness of the hour, and your patience above all. You have been sitting here all afternoon. We deeply appreciate it.

[Whereupon, at 5:25 p.m., the subcommittee was recessed, to be reconvened at 9:30 a.m., Wednesday, March 31, 1982.]

[The following additional correspondence was submitted for inclusion in the record:]

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HOPI TRIBAL HOUSING AUTHORITY

March 19, 1982

Congressman Henry B. Gonzales, Chairman
United States House of Representatives
Appropriations Sub Committee on Housing
and Community Development

Honorable Gonzales:

We bring before you and your fellow United States Legislators a very grave and urgent concern on behalf of our Hopi People, the American Indian.

We have for the past years continuously experienced an atmosphere of loosing the benefits and obligations of this Nation's Government. For the past two years, we have dealt with this Administration's attitude of elimination of the Housing Assistance Program for the American Indian. There are many issues mentioned justifying the action and recommendation for this, however, there are more justifiable reasons why the proposed elimination of the Indian Housing Assistance Program is unwarranted.

There has been many studies made by the Private Sector and the Federal Government on the housing conditions in this Country. All of these studies reveal that the American Indian is the most ill housed, yet the Federal Government is proposing to eliminate the Indian Housing Assistance Program.

High cost is one of Federal Government's reason for wanting to eliminate Housing Programs on the Indian Reservations. The high cost is mainly due to the Federal Regulations which places many requirements, standards and restrictions on Indian Housing. Federal Regulations should be reviewed and revised to meet the unique situation of the Indian Reservation, which in turn can greatly reduce the cost of Federal Housing Programs on the Reservations.

In a short time that Indian Housing Program has been in existence it has gained experience and expertise in serving the needs of the Indian People. It therefore, would be unwise at this time to eliminate a very viable and important program serving the housing needs of our people.

The Hopi Tribe has only 150 units in the planning stage at the present which is scheduled to start construction in the month of June, 1982. We still need in excess of 500 additional units and if the Indian Housing Program is not funded, our need will not be met. We do not have any more units in the pipeline for 1983 and for the future.

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Due to the present economic condition of this Nation and the poor economic climate of the Indian Reservations, financial assistance for housing is a need. Commercial loans for home construction is difficult to obtain on Indian Reservations due to the unique status of the Reservations, also remoteness of the Indian Reservations creates a situation where housing construction becomes very expensive by a least fifteen to twenty percent higher than urban areas.

Attached to this letter is a copy of Hopi Housing Assistance Program Strategy, which reveals our need for housing for our people.

We urgently request that the Indian Housing Program be continued and funded for fiscal years, 1982, 1983 and the future at an adequate level to effectively meet the needs of our people.

Respectfully,

Harold Joseph, Jr.
Chairman
Board of Commissioners

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HOPI TRIBAL
HOUSING ASSISTANCE STRATEGY
FY 1982

A. POPULATION

The total population of the Hopi Reservation is 8,439 as reported by the Bureau of Indian Affairs.

B. HOUSING CONDITIONS

On the Hopi Reservation dilapitation and overcrowdness are a typical characterization of approximately 65% of the total housing units on the reservation.

TOTAL HOUSING UNITS	TOTAL HOUSING UNITS IN STANDARD CONDITIONS	TOTAL HOUSING UNITS IN SUBSTANDARD CONDITIONS
1,050	370	680

Of the substandard housing units approximately 16% may become standarized by means of rehabilitation and the remaining 84% are in need of replacement.

TOTAL HOUSING UNITS IN SUBSTANDARD CONDITIONS	TOTAL HOUSING UNITS NEEDING REHABILITATION	TOTAL HOUSING UNITS NEEDING REPLACEMENT
680	108	572

The Housing Survey conducted by the Hopi Housing Authority during the summer of 1979 indicated that of the total number of housing units on the reservation approximately 30% were of overcrowded conditions, and the average family size approximately 7 persons.

Due to overcrowdness and the ever increasing population of the Hopi Tribe, there is a need for additional housing unit on the reservation to address this problem.

TOTAL HOUSING UNITS UNITS REQUIRED	TOTAL HOUSING UNITS NEEDING REPLACEMENT	TOTAL FAMILIES NEEDING HOUSING
727	572	155

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C. HOUSING ASSISTANCE GOALS

The Hopi Tribal Housing Assistance Goals for Fy 1982 includes the construction of 151 standard housing units, and the standardization of 40 housing units by means of rehabilitation.

TOTAL NEW HOUSING UNITS	HOPI TRIBAL HOUSING AUTHORTIY	HOPI TRIBAL HOME IMPROVEMENT PROGRAM
151	150	1

TOTAL HOUSING UNITS TO BE REPLACED	HOPI TRIBAL HOUSING AUTHORITY	HOME IMPROVEMENT PROGRAM
2	2	0

TOTAL HOUSING UNITS REHABILITATED AND STANDARDIZED	HOPI TRIBAL HOUSING AUTHORITY	HOME IMPROVEMENT PROGRAM
40	25	15

A total of 74 units will be Rehabilitated in 1982, but will not meet H.U.D.'s criteria for a standard house.

TOTAL SUBSTANDARD HOUSING UNITS REHABILITATED	FIRST MESA IMPROVEMENT PROJECT	HOME IMPROVEMENT PROGRAM
74	15	59

D. PRIORITIZATION OF HOUSING ASSISTANCE GOALS

The projected Housing Assistance Goals for fiscal year 1982 addresses the need to provide:

1. Safe, decent and sanitary housing
2. Alleviate overcrowded housing conditions
3. Restore housing units of historical and cultural significance to standards of safe, decent and sanitary
4. Consolidate all housing related services under one roof to improve the efficiency and quality of the delivery of these services to the Hopi people of all income levels, and to those of special needs i.e., elderly, handicap, and etc.

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The achievement of these goals in 1982 will not only improve the housing conditions of the Hopi People, but will have a positive affect on the health and social ills associated with the substandard housing conditions of the Hopi Society.

E. HOUSING ASSISTANCE NARRATIVE

Statement of Finding

Dilapitation and overcrowdness are a typical characterization of the existing housing conditions of the Hopi Indian Reservation.

Due to the high unemployment rate on the Hopi Reservation, whereby approximately 60% of the total population is below the H.U.D. poverty level for an average family of 4 persons, and the impact of the inflationary factor on the cost of building materials, it is next to impossible for the majority of the Hopi people to improve on their deplorable housing conditions.

Presently the Hopi Tribal Housing Authority and the Home Improvement Programs are the two existing Housing Assistance programs actively engaged in attempting to address the dire housing needs of the Hopi people. However statutory and regulatory requirements of the two federally funded housing assistance programs limit the number of families to receive housing rehabilitation, replacement, and new housing assistance services these two programs provide.

The trust status of the Hopi Reservation have restricted commercial lending institutions and federally subsidized housing loan programs, such as the Farmers Home Adminstration from providing new home loans and home improvement loans to tribal members residing on the Reservation. Therefore even families of moderate to moderately high income levels are confronted with home improvement and house acquisition problems.

It is therefore essential that the Hopi Tribe seek sources of housing assistance and home loan programs that will facilitate the means by which the Hopi people will have hopes of acquiring new housing, and improve the safety and health standards of their housing conditions.

Many of the housing units on the reservation are of historical and cultural significance, therfore existing housing programs and future housing assistance programs need to address the rehabilative needs of these housing units. In providing rehabilative services, the traditional architecture of the Hopi people need to be considered, so that measures may be employed to retain the traditional ecstatics of the communities, which reflect the historical and cultural values of the Hopi People.

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It is the believe of the Hopi people that these historical housing units can be rehabilitated to achieve safe and health standards and still yet preserve the traditional architecture and esctatics of their communities.

SCOPE OF IMPLEMENTATION

Through its contractual relations with the Department of Housing and Urban Development, the Hopi Tribal Housing Authority in addressing the housing needs of the Hopi Reservation has received approval of its schematic submittal for a 150 unit Mutual Help Housing Project, designated as AZ 27-11. This 150 units housing project will encompass the entire Hopi Reservation, and will increase the number of standard housing units.

The Hopi Tribe has been very instrumental in the success of the Hopi Housing Authority to receive approval from H.U.D. for this 150 unit housing project. Being concerned with the dire housing needs of the Hopi people the Hopi Tribal had contractually obligated funds to the Hopi Housing Authority, which will fund the water and sewer concerns of the 150 unit housing project. This action was necessary due to the recent federal budgetary cuts which prohibited the Indian Health Service from making funding committments for the development of Comprehensive water and sewer facilities on the reservation. Funds obligated by the tribe was in the amount of $50,000.00.

The Housing Authority has also recently received approval from H.U.D. for Rehabilitation funds which will insulate and weatherize 25 Self-Help homes under Project AZ 27-1. This was the first H.U.D. assisted housing project on the Hopi Reservation, and were not provided with adequate insulation.

The Hopi Housing Authority being concerned with the delivery of housing assistance services and/or lack of housing assistance on the Hopi Reservation, and being a quasi-independent body with contractual powers has proposed to contract the Home Improvement and other housing related, services presently under the adminstration of the Hopi Tribal Government.

By consolidating these housing related services under one roof, the Housing Authority hopes to increase the efficiency and the quality of the delivery of these services. The Housing Authority is optimistic that the consolidation of these programs will enable it to successfully address the housing needs and housing conditions of the reservation.

Due to the statutory and regulatory requirement of the Housing Authority and the various housing assistance programs, and the restriction imposed on hew home loans and home improvement loans to tribal members, by commercial and federally subsidized home loan programs, families of low and moderate to moderately high levels are unable to obtain new housing and/ or improve on their housing conditions.

Therefore as a partial and interim solution to the problem, the Hopi Tribal Housing Authority has by resolution increased the Income Limits by which they operate, and are now awaiting H.U.D. approval for implementation.

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Scope of Implementation cont...

The HOPI TRIBAL HOME IMPROVEMENT PROGRAM is a housing assistance program contracted from the Bureau of Indian Affairs. This program has primarily been engaged in providing rehabilitative services to existing housing units. However, for the first time in FY 1982 one of its contractual obligations is the construction of four new housing units for families of low income status. Only one of the four housing units will be of safe and health standards.

Of the 74 housing units to be rehabilitated by the Home Improvement Program, only 15 of these units will become standardized due to the location of the proposed home sites, absence of water and sanitary facilities, the lack of funds to provide comprehensive community water and sanitation services, and fixed dollar allocation per catagorization of housing assistance as determined by the statutory and regulatory provisions of the program.

The FIRST MESA IMPROVEMENT PROJECT is a manifestation of a community's concerted efforts to improve the safe and health standards of their housing conditions, and yet preserve the historical and cultural integrity of their community.

In its initial conception, the First Mesa Consolidated Villages through the Hopi Tribal Government sought funding through the Community Development Block Grant component of H.U.D., and the Indian Health Service to jointly fund this project.

To the dismay of the First Mesa Consolidated Villages, federal budgetary cuts prevented the Indian Health Service from funding the water and sanitary concerns of this project. The Hopi Tribe, however was successful in obtaining a Community Development Block Grant, to rehabilitate 15 historical housing units and provide minimal water services.

The First Mesa Consolidated Villiages being desirious of preserving the historical and cultural integrity of their community and yet being conscious of the need to improve the safety and health standards of their community is now through the Hopi Tribal Government seeking a three year Comprehensive Grant from the Community Development Block Grant Program.

The U.S. Parks Services has provided Architectual and Engineering Services to the First Mesa villages so that the historical and cultural ecstatics of their community can be preserved.

F. ACKNOWLEDGEMENT

The Hopi Tribal Housing Assistance Strategy was established with the cooperation of the Hopi Tribal Housing Authority, the Bureau of Indian Affairs and the Home Improvement Program.

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December 17, 1981

MEMORANDUM

TO : Chairman, Hopi Tribal Council
Attention: Harold Joseph, Tribal Planner

FROM : Superintendent, Hopi Agency

SUBJECT: Verification of Data - First Mesa Improvement Project
Application to H.U.D.

We have consulted our records concerning data you have submitted. The results are as follows:

Our 1981 Reservation Profile states that current family income is averaged at $4,450 per annum; projected 1982 family income is $4,600. This is much below the poverty level. It can safely be stated that at least 4,000 persons are below the HUD poverty level for an average family size of 4, which is $7,190 per annum in the farm or rural area.

Our latest survey of Housing Status for the Hopi Reservation is also included in the 1981 Reservation Profile. There are 1050 total homes on the Reservation. Of these 370 are standard and 680 are substandard. 315 of these substandard units are overcrowded. In 1982 there will be 150 additional standard homes constructed. This will increase our total homes to 1,200, our standard homes to 520 and our substandard homes will remain at 680. This is because all of the 150 new units will be occupied by families presently in multiple family substandard units. Overcrowded units will thus be reduced to a total of 165.

If you require additional verification please do not hesitate to contact this office.

Alph H. Secakuku

AHS:GMc/gjs

cc: Program Analyst, HIA
Agency Chrono
Hopi Housing Authority

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HOPI TRIBAL HOUSING AUTHORITY

March 03, 1982

Dear

Iast year again this year, we are facing uncertainties regarding Indian Housing Programs.

Iast years approach was elimination of HUD Indian Housing Programs as proposed by the Reagan Administration and Office of Management and Budget. The basic reason was the high cost of delivery, the high cost of constructing homes on the Indian Reservations, as compared to metropolitan areas. There was a massive lobbying effort to alter or kill this recommendation because all statistics reveal that the American Indian is the most ill housed, crowded in homes and need sanitary environment. These facts enhanced funding for the HUD Indian Housing Program for fiscal year 1982.

This year, the HUD Indian Housing Program is being picked on again, with the main concept of transferring and changing the program to make the delivery more economical, with better timelines. The two main alternatives are, 1) Transfer to the HUD Block Grant System and 2) Transfer to the Bureau of Indian Affairs.

We agree on the basic position that the cost of housing nationally is outrageous. The unique conditions on Indian Reservations add onto this national situation, thus making costs of Indian Housing Programs on Indian Reservations magnanimous. There are many factors, we feel, that contributes to this embarrassing situation, and most are from the restrictions, regulations of the Federal Government.

We are of the position, that the best economical solution to this high cost in delivering housing programs to the American Indian is to maintian the program where it is, under Housing and Urban Development, Office of Indian Programs, instead of transferromg to another agency. The HUD, Office of Indian Programs has established six years of invaluable experience and this should be expanded upon instead of eliminated. We all agree on the basic concern, that the cost of Indian Housing is costly, and most of the costly items are generated by the federal regulations. The Minimum Property Standards, Davis-Bacon Rates and the imposition of constructing a certain standard home which is foreign to the Indian Reservation are but a few. The delivery systems, procedures within HUD-OIP, staffing, need to be reviewed and improved upon. These in-house approaches would improve the delivery of housing program economically instead of transferring to another agency which would generate a whole new nightmare of forms, systems, funding approaches, and in the long run, result in just as costly if not more expensive housing program.

P.O. BOX 698 . SECOND MESA ARIZONA 86043 (602) 737-2556

93-366 3667

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Your support is urgently requested to enable the American Indian an equal chance to obtain and maintain similiar benefits from the American Government as his brothers of another race.

Recently, President Reagan, in his statement to the Union, stated that he will start the movement to transfer all social services programs to the states.

We are of the position that the United States Government has certain obligations to the Indian Nations through treaties and such and a direct relationship between the U.S. Government and Indians must be maintained to safeguard these responsibilities. The states do not support and have no authority over the Indian Nations, therefore the Indians will not benefit when these programs are given to the states.

Your understanding and support on these concerns are very much appreciated.

If you find a little time in your very busy schedule, I hope you would communicate with us so that we may better understand these issues before us.

Sincerely yours,

Harold Joseph Jr.

Harold Joseph, Jr.
Chairman
Hopi Tribal Housing Authority

HJJ/ymk

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NATIONAL AMERICAN INDIAN HOUSING COUNCIL
1001 N. MOUNTAIN ST. • WATERS BLDG. • SUITE 2-J • SIERRA PROFESSIONAL COMPLEX
CARSON CITY, NEVADA 89701
TELEPHONE (702) 882-1766

RESOLUTION NAIHC NO. 1/82-1

THE BOARD OF DIRECTORS OF THE NATIONAL AMERICAN INDIAN HOUSING COUNCIL IN ATTENDANCE AT THE QUARTERLY BOARD MEETING IN TULSA, OKLAHOMA VOTED UNANIMOUSLY TO ENDORSE AND SUPPORT THE ATTACHED POSITION PAPER OF THE SOUTHWEST INDIAN HOUSING AUTHORITIES ASSOCIATION.

CERTIFICATION

IT IS HEREBY CERTIFIED BY THE UNDERSIGNED THAT THE FOREGOING POSITION PAPER WAS ADOPTED BY THE BOARD OF DIRECTORS OF THE NATIONAL AMERICAN INDIAN HOUSING COUNCIL IN A DULY CONSTITUTED MEETING ON THE 12TH DAY OF JANUARY, 1982 AT WHICH MEETING THERE WAS A QUORUM PRESENT AND A MAJORITY OF THE BOARD OF DIRECTORS VOTING.

NAIHC CHAIRMAN

ATTEST:

NAIHC SECRETARY



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Position of

Southwest Indian Housing Authorities Association

on Proposed Elimination of Indian Housing for FY 1983
and New Alternatives for Improved Delivery
and Management of Indian Housing

January 1982

Southwest Indian Housing Authorities Association, which represents 46 Indian communities in Arizona, California, New Mexico and Nevada, urges reconsideration of all proposed plans to eliminate housing assistance to Indian Housing Authorities (IHAs) operating in Indian and Alaskan Native communities.

Housing needs for Indian communities are substantial. The delivery of new housing to Indian communities is an extremely complex and difficult task. Cultural, religious and political factors often appear to conflict with existing housing assistance approaches. In addition, the remoteness of Indian communities and their unique topographic and climatologic conditions add to this complexity.

The unique status of Indian community land and the trust relationships between recognized tribes and the Federal government, while necessary to protect the Indian community, has tended to further restrict the funding availability for decent housing on Indian communities.

The recent influx of non-reservation Indians back to the reservation and the extensive population growth from within has increased the housing needs on Indian communities. Although HUD has over the past 18 years produced over 28,000 new Indian housing units, it is estimated that more than 60,000 additional units will be required to satisfy the housing need. Half of all housing on Indian communities is substandard.

Indian communities are at the mercy of the sole source of housing--the Federal government. The housing delivery system in an Indian community involves the intermingling of lending institutions, builders/developers, non-profit sponsors, public finance agencies, planners, code enforcers or real estate agents. It is the Indian housing authority which uses Federal development funds to provide 90-100% of the dwelling units for low-income, needy families residing on Indian reservations.

The Indian housing authority has relied solely on public assistance since private lending institutions and private builders/developers are rarely found in Indian communities. The problem of securing private financing is compounded because of the Federal government's trust responsibility on Indian lands.

It is inequitable to completely eliminate Indian housing as it is presently administered by the Department of Housing and Urban Development. Southwest Indian Housing Authorities Association firmly believes that as long as the need for housing in Indian communities exists, the United

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States government as a sole source of housing has a major responsibility to improve--not wipe out--its housing assistance efforts to Indian communities.

It is accepted by IHAs that HUD housing can be expensive. It is expensive because the U.S. government has made development regulations such that high development/construction cost is unavoidable. Minimizing or revising development regulations would be a partial solution to a concern we all share.

Eliminating Indian housing programs and depriving the needy of housing is inequitable and contradictory to the Housing Act of 1937 as amended: to provide safe, decent and sanitary housing to low income families.

The United States Congress has the knowledge and authority to seek reasonable alternatives to meet the desperate housing need existing in all Indian and Alaskan Native communities.

The Federal government has provided preliminary proposals to provide housing to the local level, and they include 1) Housing Block Grants and 2) Vouchering.

It is understood that block grants are made by the Federal government for broad purposes, allowing spending decisions to be made at the local level. These grants have been proposed as one alternative to the current system of delivering Federal housing. Such block grants are envisioned as a means of allowing greater flexibility in meeting local housing needs and offering an opportunity to reduce outlays and costs of current programs; however, there is no guarantee that greater local control would do a better job of providing housing. There is considerable doubt that many housing-related goals, such as fair housing and Indian housing, would be addressed at all if Federal direction were to be eliminated.

SWIHAA views several problems with this form of block grant:

--It may be a short-term funding mechanism.

--It would cause huge start-up costs.

--Local level would have problems finding qualified people to administer the block grant program for both public and Indian housing.

--Short-term versus multi-year funding is uncertain.

--Contract authority and budget authority would be needed to plan and initiate anything other than short-term (one to three-year) projects.

--Possible elimination of Federal Operating Subsidy funding is not clear.

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--Option on new housing programs or use of present Federal programs and regulations on construction and management is not clear.

--Finally, without Federally-set eligibility requirements, a redistribution of housing assistance away from those needing it most might occur, and politically unpopular assistance for low-income families and some other groups may be hindered by a housing block grant program.

Providing vouchers to individuals on rural Indian communities for vouchering from non-IHA operations is unfeasible because 90-100% of the housing stock is provided by IHAs on Indian communities. The vouchering system is more applicable for urban environments.

The greatest concern that all IHAs share is the status of collections and management capability. While several IHAs exhibit excellent collections, the majority of IHAs have huge sums still not collected. It will require patience, time and funds to improve this situation. The remedies remain in the attitudes, awareness and acceptance to responsibilities of participants under a non-tribal oriented program.

Qualified housing management personnel are not readily available to IHAs from within the Indian community. There is no incentive for non-Indian managers to apply for IHA management positions because salaries are very low, and housing is not always available on remote Indian communities. The tribal political environment can erase job security and long-term commitments by qualified non-Indian managers. The housing programs are viewed as a truly social-welfare program and not as a business-oriented program as should be viewed by legislative and judicial branches of tribal governments. This view of housing has affected collections and management capability on the part of many IHAs. Continuing efforts by IHAs will be pursued to identify roles of HUD, the tribal governing body, the Indian Housing Authority in respect to development and management of Indian housing.

SWIHAA pledges to support Congress and its agencies in all efforts to improve the delivery and management of Indian housing programs.

Respectfully submitted,

SOUTHWEST INDIAN HOUSING AUTHORITIES ASSOCIATION

Courtney Moyah
President

Salome T. Garcia
Vice President

Endorsed by the NATIONAL AMERICAN INDIAN HOUSING COUNCIL

Johnnye Chopper
Chairman

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371-1000

March 31, 1982

Rep. Henry B. Gonzales, Chairman
Sub-Committee on Housing and
Community Development
Committee on Banking, Finance
and Urban Affairs
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Gonzales:

On behalf of the many thousands of low and moderate income people living in the New York metropolitan area, I am appealing to you to reject the severe cuts proposed by the Administration for housing programs in fiscal year 1983.

The National Housing Act of 1949 set forth the goal of a "decent home and a suitable living environment for every American." The federal housing programs, which are our principal means of achieving this goal for low-income persons, were not included in the social safety net designed to protect the needy. While fiscal constraint is a worthy objective, the decision to eliminate our housing programs can only exacerbate the already critical plight of our nation's ill-housed, low-income population.

In charting a course for the future of publicly-aided housing, the Congress needs to reassure the nation of the federal government's active role in meeting the shelter needs of all segments of the population, especially the poor, persons with special needs and victims of discrimination.

I urge you, therefore, to resist the steps the Administration has taken to eliminate housing production programs from the federal budget. Also, the operating subsidies for Public Housing must be increased, not reduced. The recisions proposed for the Sec. 8 program in FY 1982 can only obfuscate the goal of providing decent affordable housing opportunities for every American.

Sincerely yours,

Rev. Msgr. James J. Murray
Executive Director

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